

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
FORT WORTH DIVISION**

<b>In re</b>	§	<b>Chapter 11</b>
	§	
<b>PILGRIM'S PRIDE CORPORATION, et al.,</b>	§	<b>Case No. 08-45664 (DML)</b>
	§	
<b>Debtors.</b>	§	
	§	<b>(JOINTLY ADMINISTERED)</b>

**DISCLOSURE STATEMENT FOR THE DEBTORS' JOINT PLAN OF  
REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

The Bankruptcy Court has not approved this proposed disclosure statement as containing adequate information pursuant to section 1125(b) of the Bankruptcy Code for use in the solicitation of acceptances or rejections of the chapter 11 plan described herein and attached hereto. Accordingly, the filing and dissemination of this disclosure statement are not intended to be, and should not in any way be construed as, a solicitation of votes on the plan, nor should the information contained in this disclosure statement be relied on for any purpose until a determination by the Bankruptcy Court that the proposed disclosure statement contains adequate information.

The Debtors reserve the right to amend or supplement this proposed disclosure statement at or before the hearing to consider this disclosure statement.

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Dated: Fort Worth, Texas  
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## I.

### INTRODUCTION

The Debtors submit this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) to holders of claims and equity interests against the Debtors in connection with (i) the solicitation of acceptances of the Debtors’ joint plan of reorganization under the Bankruptcy Code, dated September 17, 2009 (the “Plan”), filed by the Debtors with the United States Bankruptcy Court for the Northern District of Texas (the “Bankruptcy Court”) and (ii) the hearing to consider confirmation of the Plan (the “Confirmation Hearing”) scheduled for [ ], 2009 at [ ]:00 [ ].m. (Central Time). **UNLESS OTHERWISE DEFINED HEREIN, ALL CAPITALIZED TERMS CONTAINED HEREIN HAVE THE MEANINGS ASCRIBED TO THEM IN THE PLAN.**

Annexed as Exhibits to this Disclosure Statement are copies of the following documents:

- The Plan (Exhibit A);
- Order of the Bankruptcy Court, dated [ ], 2009 (the “Disclosure Statement Order”), approving, among other things, this Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan (annexed without exhibits) (Exhibit B);
- Pilgrim’s Pride Corporation’s Annual Report on Form 10-K, as amended, for the fiscal year ended September 27, 2008 (annexed without exhibits) (Exhibit C);
- Pilgrim’s Pride Corporation’s Form 10-Qs for the quarters ending December 27, 2008, March 28, 2009 and June 27, 2009 (all annexed without exhibits) (Exhibit D);
- JBS USA Holdings, Inc. Form S-1, filed with the United States Securities and Exchange Commission (the “SEC”) on July 22, 2009 (annexed without exhibits) (Exhibit E);
- The Debtors’ Financial Projections (Exhibit F);
- The Debtors’ Liquidation Analysis (Exhibit G); and
- Organizational Chart (Exhibit H).

A Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims and Equity Interests that the Debtors believe may be entitled to vote to accept or reject the Plan.

On [ ], 2009, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order, approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable a hypothetical investor of the relevant classes to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order, a copy of which is annexed hereto as Exhibit B, sets forth in detail, among other things, the deadlines, procedures and instructions for voting to accept or reject

the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each holder of a Claim entitled to vote on the Plan should read the Disclosure Statement, the Plan, the Disclosure Statement Order, and the instructions accompanying the Ballots in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code.

As described in more detail herein, the Debtors' Plan provides for payment in full of all Claims. The Plan is predicated upon reorganization of the Debtors as a going concern and the purchase of majority of the Reorganized PPC's common stock by JBS USA Holdings, Inc. ("Plan Sponsor"). The Disclosure Statement describes:

- The businesses of the Debtors and the reasons why they commenced their Chapter 11 Cases (Section III).
- Significant events that have occurred in the Debtors' Chapter 11 Cases (Section IV).
- The transaction with the Plan Sponsor (Section V).
- The material terms of the Plan, including, without limitation, how the Plan treats creditors and equity holders, how distributions under the Plan will be made and the manner in which disputed claims are to be resolved, and the conditions precedent to the Effective Date of the Plan (Section VI).
- Certain financial information about the Debtors, including their 5-year projections (Section VII).
- The procedure for selecting the Board of Directors (Section VII).
- Certain risk factors creditors should consider before voting (Section VIII).
- Certain tax laws issues (Section IX).
- Certain securities laws issues (Section X).
- Alternatives to confirmation of the Plan (Section XI).
- Instructions for submitting votes on the Plan and who is entitled to vote (Section XII).
- The procedure for confirming the Plan (Section XIII).

Please note that if there is any inconsistency between the Plan and this Disclosure Statement, the terms of the Plan will govern.

Additional financial information about the Debtors can be found in the annual report on Form 10-K, as amended, for the year ended September 27, 2008 and the quarterly reports on Form 10-Q for the first three quarters of fiscal year 2009, which were filed by Pilgrim's Pride Corporation ("PPC") with the SEC on December 11, 2008 (as amended on January 26, 2009), February 5, 2009, May 7, 2009 and August 3, 2009, respectively. Copies of these documents without exhibits is attached hereto as

Exhibit C and Exhibit D. Additional information about the Plan Sponsor including detailed financial information can be found on the Form S-1, which was filed with the SEC on July 22, 2009. A copy of the Plan Sponsor's Form S-1 without exhibits is attached hereto as Exhibit E. Copies of all SEC filings may be obtained over the internet at [www.sec.gov](http://www.sec.gov).

This Disclosure Statement, the Plan [and correspondence from the Equity Committee urging equity holders to vote in favor of the Plan] are the only materials equity holders should use to determine whether to vote to accept or reject the Plan.

The Plan is the product of extensive negotiations between and among, the Debtors, the Creditors' Committee, the Equity Committee, and the Plan Sponsor.

The Debtors, [and the Equity Committee] believe that the Plan is in the best interest of, and provides the highest and most expeditious recoveries to holders of all Claims and Equity Interests. The Debtors [and the Equity Committee] urge all holders of Equity Interests entitled to vote on the Plan to vote in favor of the Plan.

Additional copies of this Disclosure Statement are available upon request made to the Voting Agent, at the following address:

Pilgrim's Pride Ballot Processing Center  
c/o Kurtzman Carson Consultants LLC  
2335 Alaska Avenue  
El Segundo, CA 90245  
T: (888) 830-4659  
[www.kccllc.net/pilgrimspride](http://www.kccllc.net/pilgrimspride)

The summaries of the Plan and other documents related to the restructuring of the Debtors are qualified in their entirety by the Plan and its exhibits. The financial and other information included in this Disclosure Statement are for purposes of soliciting acceptances of the Plan only. The financial and other information regarding the Plan Sponsor has been provided by the Plan Sponsor and has not been independently verified by the Debtors.

The Bankruptcy Code provides that only creditors and equity holders who vote on the Plan will be counted for purposes of determining whether the requisite acceptances have been attained. Failure to timely deliver a properly completed ballot by the voting deadline will constitute an abstention (i.e. will not be counted as either an acceptance or a rejection), and any improperly completed or late ballot will not be counted.

**THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SEC, NOR HAS THE SEC PASSED ON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREWITH. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND EQUITY INTERESTS IN THE DEBTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS**

**WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS.**

**II.**

**EXECUTIVE SUMMARY**

The Plan provides for a reorganization of the Debtors' businesses as a going concern. The Plan contemplates that the Debtors will emerge with at least \$1,650,000,000 in available financing and that the Plan Sponsor will purchase a majority of common stock of the Reorganized PPC to fund distributions under the Plan. All holders of Claims will be paid in full, unless otherwise agreed by such holder. Holders of Equity Interests will receive certain amount of common stock of the Reorganized PPC.

**A. Summary of Classification and Treatment of Claims and Equity Interests Under Plan**

The following table divides the claims against and equity interests in the Debtors into separate classes and summarizes the treatment for each class. The table also identifies which classes are impaired or unimpaired and entitled to vote on the Plan based on rules set forth in the Bankruptcy Code. Finally, the table indicates an estimated recovery for each class. **Important Note:** The recoveries described in the following table represent the Debtors' best estimates of those values given the information available at this time. These estimates do not predict the potential trading prices for the common stock of the Reorganized PPC.

<b>CLASS</b>	<b>DESIGNATION</b>	<b>STATUS</b>	<b>ENTITLED TO VOTE?</b>	<b>ESTIMATED RECOVERY</b>
<b>CLASSES 1(a) – (g)</b>				
<b>Class 1(a)</b>	Priority Non-Tax Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 1(b)</b>	Priority Non-Tax Claims against PFS Distribution Company	Unimpaired	No (deemed to accept)	100%
<b>Class 1(c)</b>	Priority Non-Tax Claims against PPC Transportation Company	Unimpaired	No (deemed to accept)	100%
<b>Class 1(d)</b>	Priority Non-Tax Claims against To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 1(e)</b>	Priority Non-Tax Claims against To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 1(f)</b>	Priority Non-Tax Claims against Pilgrim's Pride Corporation of West Virginia, Inc.	Unimpaired	No (deemed to accept)	100%
<b>Class 1(g)</b>	Priority Non-Tax Claims against PPC Marketing, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 2(a) – (c)</b>				
<b>Class 2(a)</b>	BMO Secured Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 2(b)</b>	BMO Secured Claims against To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 2(c)</b>	BMO Secured Claims against To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	100%



<b>CLASS</b>	<b>DESIGNATION</b>	<b>STATUS</b>	<b>ENTITLED TO VOTE?</b>	<b>ESTIMATED RECOVERY</b>
<b>CLASS 3</b>				
<b>Class 3</b>	CoBank Secured Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 4(a) – (g)</b>				
<b>Class 4(a)</b>	Secured Tax Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 4(b)</b>	Secured Tax Claims against PFS Distribution Company	Unimpaired	No (deemed to accept)	100%
<b>Class 4(c)</b>	Secured Tax Claims against PPC Transportation Company	Unimpaired	No (deemed to accept)	100%
<b>Class 4(d)</b>	Secured Tax Claims against To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 4(e)</b>	Secured Tax Claims against To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 4(f)</b>	Secured Tax Claims against Pilgrim’s Pride Corporation of West Virginia, Inc.	Unimpaired	No (deemed to accept)	100%
<b>Class 4(g)</b>	Secured Tax Claims against PPC Marketing, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 5(a) – (g)</b>				
<b>Class 5(a)</b>	Other Secured Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 5(b)</b>	Other Secured Claims against PFS Distribution Company	Unimpaired	No (deemed to accept)	100%
<b>Class 5(c)</b>	Other Secured Claims against PPC Transportation Company	Unimpaired	No (deemed to accept)	100%
<b>Class 5(d)</b>	Other Secured Claims against To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 5(e)</b>	Other Secured Claims against To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 5(f)</b>	Other Secured Claims against Pilgrim’s Pride Corporation of West Virginia, Inc.	Unimpaired	No (deemed to accept)	100%
<b>Class 5(g)</b>	Other Secured Claims against PPC Marketing, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 6(a) – (c)</b>				
<b>Class 6(a)</b>	Senior Note Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 6(b)</b>	Senior Subordinated Note Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 6(c)</b>	Subordinated Note Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 7(a) – (g)</b>				
<b>Class 7(a)</b>	General Unsecured Claims against PPC	Unimpaired	No (deemed to accept)	100%
<b>Class 7(b)</b>	General Unsecured Claims against PFS Distribution Company	Unimpaired	No (deemed to accept)	100%
<b>Class 7(c)</b>	General Unsecured Claims against PPC Transportation Company	Unimpaired	No (deemed to accept)	100%
<b>Class 7(d)</b>	General Unsecured Claims against To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 7(e)</b>	General Unsecured Claims against To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>Class 7(f)</b>	General Unsecured Claims against Pilgrim’s Pride Corporation of West	Unimpaired	No (deemed to accept)	100%

CLASS	DESIGNATION	STATUS	ENTITLED TO VOTE?	ESTIMATED RECOVERY
	Virginia, Inc.			
<b>Class 7(g)</b>	General Unsecured Claims against PPC Marketing, Ltd.	Unimpaired	No (deemed to accept)	100%
<b>CLASS 8</b>				
<b>Class 8</b>	Intercompany Claims	Unimpaired	No (deemed to accept)	100%
<b>CLASS 9</b>				
<b>Class 9</b>	Flow-Through Claims	Unimpaired	No (deemed to accept)	100%
<b>CLASSES 10(a) – (g)</b>				
<b>Class 10(a)</b>	Equity Interests in PPC	Impaired	Yes	N/A
<b>Class 10(b)</b>	Equity Interests in PFS Distribution Company	Unimpaired	No (deemed to accept)	N/A
<b>Class 10(c)</b>	Equity Interests in PPC Transportation Company	Unimpaired	No (deemed to accept)	N/A
<b>Class 10(d)</b>	Equity Interests in To-Ricos, Ltd.	Unimpaired	No (deemed to accept)	N/A
<b>Class 10(e)</b>	Equity Interests in To-Ricos Distribution, Ltd.	Unimpaired	No (deemed to accept)	N/A
<b>Class 10(f)</b>	Equity Interests in Pilgrim’s Pride Corporation of West Virginia, Inc.	Unimpaired	No (deemed to accept)	N/A
<b>Class 10(g)</b>	Equity Interests in PPC Marketing, Ltd.	Unimpaired	No (deemed to accept)	N/A

## B. Overview of Chapter 11 Process

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code, pursuant to which a debtor in possession may reorganize its business for the benefit of its creditors, equity holders, and other parties-in-interest. The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in possession as of the date the petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to operate its business and remain in possession of its property as a “debtor in possession” unless the bankruptcy court orders the appointment of a trustee.

The filing of a chapter 11 petition triggers the automatic stay provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides, among other things, for an automatic stay of all attempts by creditors or other third parties to collect pre-petition claims from the debtor or otherwise interfere with its property or business. Exempted from the automatic stay are governmental authorities seeking to exercise regulatory or policing powers. Except as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect until the effective date of a confirmed plan of reorganization.

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the holders of claims against and interests in the debtor’s estate. Unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case (the “Exclusive Filing Period”). However, section 1121(d) of the Bankruptcy Code permits the bankruptcy court to extend or reduce the Exclusive Filing Period upon a showing of “cause.” Following the filing of a plan, a debtor must solicit acceptances of the plan within a certain time period (the “Exclusive Solicitation Period”). The Exclusive Solicitation Period may also be extended or reduced by the bankruptcy court upon a showing of “cause.”

### III.

#### OVERVIEW OF THE DEBTORS' OPERATIONS

##### A. History of Pilgrim's Pride

Formed in 1946 as a retail feed store partnership between Lonnie A. "Bo" Pilgrim and his brother, Aubrey E. Pilgrim, PPC has been a publicly traded company since 1986. PPC was incorporated in 1968 in Texas and reincorporated in 1986 in Delaware. Business operations in Mexico are conducted through non-debtor subsidiaries organized under the laws of Mexico.

PPC is the direct or indirect parent company of each of the other Debtors. The Debtors are organized in various jurisdictions ranging from Texas to Bermuda. PPC is also the indirect or direct parent company of certain non-debtor entities that are located in the United States and in foreign jurisdictions, including Mexico. Business operations in the United States are carried out by the Debtors and the Debtors' non-debtor affiliates.

Pilgrim's Pride's headquarters are located in Pittsburg, Texas. Prior to the Commencement Date, Pilgrim's Pride owned 34 processing plants in the United States and 3 processing plants in Mexico. In the United States, the processing plants were supported by 42 hatcheries, 31 feed mills and 12 rendering plants. In Mexico, the processing plants were supported by 7 hatcheries, 4 feed mills and 2 rendering plants. In addition, prior to the Commencement Date, Pilgrim's Pride owned 12 prepared food production facilities in the United States.

PPC acquired WLR Foods, Inc. in 2001 and the chicken division of ConAgra Foods, Inc. in 2003. In December 2006, PPC acquired a majority of the outstanding common stock of Gold Kist Inc. ("Gold Kist") through a tender offer. PPC acquired the remaining shares of Gold Kist in January 2007, making Gold Kist its wholly-owned subsidiary. The chart annexed hereto as Exhibit H illustrates Pilgrim's Pride's corporate structure as of September 15, 2009.

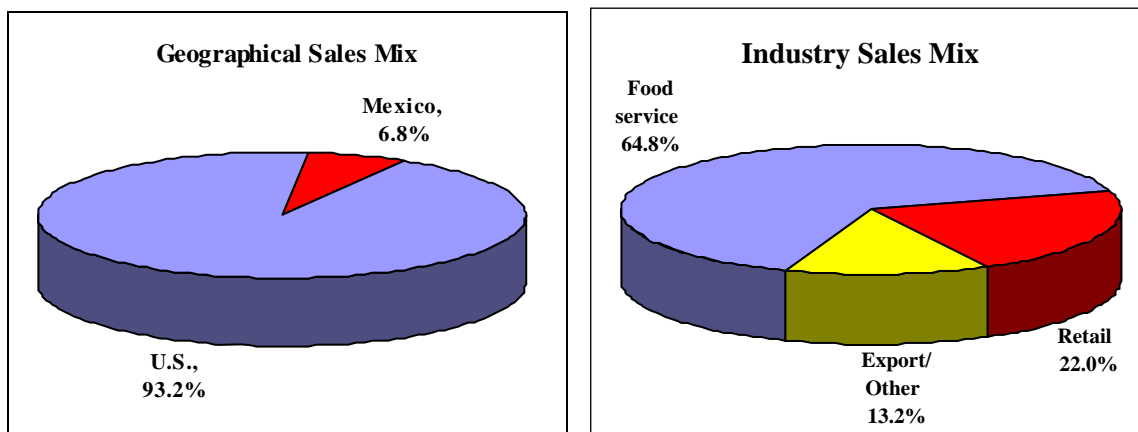
Prior to the Commencement Date, Pilgrim's Pride contracted with more than 5,500 growers working on over 6,000 farms, many of whom are small farm owners, who either raise and care for the chickens Pilgrim's Pride uses for breeding or who grow the broiler chickens from hatchlings until they are ready to be processed. Pilgrim's Pride maintains title to and ownership of the chickens and feed ingredients fed to them, but Pilgrim's Pride contracts with growers to administer feed and tend to the chickens used for breeding and for the broiler chickens until they reach certain targeted weights. The growers are independent contractors. The growers own, operate and provide the farms, the chicken houses, equipment, utilities and labor necessary to tend the chickens. Once the broiler chickens have reached a certain weight and meet other specifications, these chickens are returned to Pilgrim's Pride to be processed, packaged and transported to customers.

##### B. The Debtors' Businesses

###### 1. Introduction

Under the well-established Pilgrim's Pride brand name, the Debtors' fresh chicken retail line is sold in the southeastern, central, southwestern and western regions of the U.S., throughout Puerto Rico, and in the northern and central regions of Mexico. The Debtors' prepared chicken products meet the needs of some of the largest customers in the food service industry across the U.S. Additionally, the Debtors export commodity chicken products to approximately 80 countries.

In fiscal 2008, PPC sold 8.4 billion pounds of dressed chicken and its net sales totaled \$8.5 billion. Approximately 93.2% of PPC's sales were attributed to its U.S. operations while 6.8% was attributed to its operations in Mexico. Of the Company's U.S. chicken sales of \$7.1 billion, approximately 65% was sold to foodservice, 22% to retail, and the remaining 13% to export and other channels.



PPC has consistently applied a long-term business strategy of focusing its growth efforts on the historically higher-value prepared chicken products and has become a recognized industry leader in this market. Accordingly, PPC focused its sales efforts on the foodservice industry, principally chain restaurants and food processors. More recently, PPC also focused its sales efforts on retailers seeking value-added products.

## 2. Assets and Capacity Utilization

As of September 1, 2009, PPC operates 28 poultry processing plants located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia. PPC's U.S. chicken processing plants have weekly capacity to process 36.9 million broilers and are expected to operate at 85% of capacity in 2009. In the U.S., the processing plants are supported by 34 hatcheries, 27 feed mills, eight rendering plants and three pet food plants. The hatcheries, feed mills, rendering plants and pet food plants are expected to operate at 79%, 73%, 37% and 58% of capacity, respectively, in fiscal year 2009. Capacity utilization for PPC's rendering plants is very low because a fire in late 2008 left one of its larger plants inoperable for the first half of fiscal 2009. This rendering plant returned to its pre-fire utilization level in May 2009.

PPC has three chicken processing plants in Mexico that have a combined capacity to process 3.27 million broilers per week and are expected to operate at 73% of capacity in 2009. These plants are supported by six hatcheries, four feed mills and two rendering facilities. The Mexico hatcheries, feed mills and rendering facilities are expected to operate at 94%, 77% and 65% of capacity, respectively, in 2009.

PPC has one chicken processing plant in Puerto Rico with the capacity to process 0.3 million broilers per week based on one eight-hour shift per day. This plant is supported by one hatchery and one feed mill, which are expected to operate at 82% and 80% of capacity, respectively, in 2009. For segment reporting purposes, PPC includes Puerto Rico with its U.S. operations.

PPC also operates nine prepared food production facilities. These plants are located in Alabama, Georgia, South Carolina, Tennessee, Texas and West Virginia. These plants have the capacity to produce approximately 1.24 billion pounds of further-processed product per year. In fiscal year 2009, these plants are expected to operate at approximately 85% of capacity.

### 3. Lines of Business

PPC operates in two business segments as (i) a producer and seller of chicken products and (ii) a seller of other products.

### 4. Product Types—U.S.

PPC's chicken products consist primarily of:

(1) *Fresh Chicken*: Fresh chicken products, which are refrigerated (non-frozen) whole or cut-up chickens sold to the foodservice industry either pre-marinated or non-marinated. Fresh chicken also includes prepackaged case-ready chicken, which includes various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer's fresh meat counter.

PPC's fresh chicken business is a significant component of its sales and accounted for \$3,591.8 million, or 50.7%, of its total U.S. chicken sales for fiscal 2008. In addition to maintaining sales of mature, traditional fresh chicken products, PPC's strategy is to shift the mix of its U.S. fresh chicken products by continuing to increase sales of faster-growing products, such as marinated whole chicken and chicken parts, and to continually shift portions of this product mix into the higher-value prepared chicken category. Most fresh chicken products are sold to established customers, based upon certain weekly or monthly market prices reported by the U.S. Department of Agriculture ("USDA") and other public price reporting services, plus a markup, which is dependent upon the customer's location, volume, product specifications and other factors. PPC believes its practices with respect to sales of fresh chicken are generally consistent with those of its competitors. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for the products or set a price according to formulas based on an underlying commodity market, subject in many cases to minimum and maximum prices.

(2) *Prepared Chicken*: Prepared chicken products, which are products such as 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. During fiscal 2008, \$2,522.1 million of PPC's U.S. chicken sales were in prepared chicken products to foodservice customers and retail distributors, as compared to \$1,861.7 million in fiscal 2004. These numbers reflect the impact of PPC's historical strategic focus for growth in the prepared chicken markets and its acquisition of Gold Kist. The market for prepared chicken products has experienced, and PPC believes will continue to experience, greater growth and higher average sales prices than fresh chicken products. Also, the production and sale in the U.S. of prepared chicken products reduce the impact of the costs of feed ingredients on our profitability. Feed ingredient costs are the single largest component of PPC's total U.S. cost of sales, representing approximately 38.1% of its total U.S. cost of sales for fiscal 2008. The production of feed ingredients is positively or negatively affected primarily by the global level of supply inventories, demand for feed ingredients, the agricultural policies of the U.S. and foreign governments and weather patterns throughout the world. As further processing is performed, feed ingredient costs become a decreasing percentage of a product's total production cost, thereby reducing their impact on PPC's profitability. Products sold in this form enable PPC to charge a

premium, reduce the impact of feed ingredient costs on its profitability and improve and stabilize its profit margins.

PPC establishes prices for its prepared chicken products based primarily upon perceived value to the customer, production costs and prices of competing products. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for the products or set a price according to formulas based on an underlying commodity market, subject in many cases to minimum and maximum prices. Many times, these prices are dependent upon the customer's location, volume, product specifications and other factors.

(3) *Export and Other Chicken Products:* Export and other chicken products, are primarily parts and whole chicken, either refrigerated or frozen for U.S. export or domestic use, and prepared chicken products for U.S. export. PPC's export and other products consist of whole chickens and chicken parts sold primarily in bulk, non-branded form, either refrigerated to distributors in the U.S. or frozen for distribution to export markets, and branded and non-branded prepared chicken products for distribution to export markets. In fiscal 2008, approximately \$933.2 million, or 13.2%, of PPC's total U.S. chicken sales were attributable to U.S. chicken export and other products. These exports and other products, other than the prepared chicken products, have historically been characterized by lower prices and greater price volatility than PPC's more value-added product lines.

#### 5. Markets for Chicken Products—U.S.

PPC's chicken products are sold primarily to foodservices customers, retail customers and export and other product customers.

*Foodservice:* The foodservice market principally consists of chain restaurants, food processors, broad-line distributors and certain other institutions located throughout the continental U.S. PPC supplies chicken products ranging from portion-controlled refrigerated chicken parts to fully-cooked and frozen, breaded or non-breaded chicken parts or formed products.

PPC believes it is positioned to be the primary or secondary supplier to national and international chain restaurants who require multiple suppliers of chicken products. Additionally, PPC believes it is well suited to be the sole supplier for many regional chain restaurants. Regional chain restaurants often offer better margin opportunities and a growing base of business.

PPC believes it has operational strengths in terms of full-line product capabilities, high-volume production capacities, research and development expertise and extensive distribution and marketing experience relative to smaller and non-vertically integrated producers. While the overall chicken market has grown consistently, PPC believes the majority of this growth in recent years has been in the foodservice market. According to the National Chicken Council, from 2003 through 2007, sales of chicken products to the foodservice market grew at a compounded annual growth rate of approximately 7.5%, versus 6.6% growth for the chicken industry overall. Foodservice growth, outside of any temporary effects resulting from the current recessionary impacts being experienced in the U.S., is anticipated to continue as food-away-from-home expenditures continue to outpace overall industry rates.

Foodservice-Prepared Chicken: PPC's prepared chicken sales to the foodservice market were \$2,033.5 million in fiscal 2008 compared to \$1,647.9 million in fiscal 2004, a compounded annual growth rate of approximately 5.4%. In addition to the significant increase in sales created by the acquisition of Gold Kist, PPC attributes this growth in sales of prepared chicken to the foodservice market to a number of factors. First, there has been significant growth in the number of foodservice operators offering chicken on their menus and in the number of chicken items offered. Second, foodservice

operators are increasingly purchasing prepared chicken products, which allow them to reduce labor costs while providing greater product consistency, quality and variety across all restaurant locations.

There is a strong need among larger foodservice companies for a limited-source supplier base in the prepared chicken market. A viable supplier must be able to ensure supply, demonstrate innovation and new product development and provide competitive pricing. PPC has been successful in becoming a supplier of choice by being the primary or secondary prepared chicken supplier to many large foodservice companies for various reasons. Through vertical integration, PPC manages the breeding, hatching and growing of chickens. PPC also manages the processing, preparation, packaging, sale and distribution of its product lines, which PPC believes has made it one of the highest quality, lowest-cost producers of chicken in North America. PPC's further processing facilities, with a wide range of capabilities, are particularly well-suited to the high-volume production as well as low-volume custom production runs necessary to meet both the capacity and quality requirements of the foodservice market. In addition, PPC has established a reputation for dependable quality, highly responsive service and excellent technical support. As a result of the experience and reputation developed with larger customers, PPC has increasingly become the principal supplier to mid-sized foodservice organizations.

PPC's in-house product development group follows a customer-driven research and development focus designed to develop new products to meet customers' changing needs. PPC's research and development personnel often work directly with institutional customers in developing products for these customers. PPC is a leader in using advanced processing technology, which enables it to better meet its customers' needs for product innovation, consistent quality and cost efficiency.

Foodservice-Fresh Chicken: PPC produces and markets fresh, refrigerated chicken for sale to U.S. quick-service restaurant chains, delicatessens and other customers. These chickens have the giblets removed, are usually of specific weight ranges and are usually pre-cut to customer specifications. They are often marinated to enhance value and product differentiation. By growing and processing to customers' specifications, PPC is able to assist quick-service restaurant chains in controlling costs and maintaining quality and size consistency of chicken pieces sold to the consumer. PPC's fresh chicken products sales to the foodservice market were \$2,550.3 million in fiscal 2008 compared to \$1,328.9 million in fiscal 2004, a compounded annual growth rate of approximately 17.7%.

*Retail:* The retail market consists primarily of grocery store chains, wholesale clubs and other retail distributors. PPC concentrates its efforts in this market on sales of branded, prepackaged cut-up and whole chicken and chicken parts to grocery store chains and retail distributors. For a number of years, PPC has invested in both trade and retail marketing designed to establish high levels of brand name awareness and consumer preferences.

PPC utilizes numerous marketing techniques, including advertising, to develop and strengthen trade and consumer awareness and increase brand loyalty for consumer products marketed under the Pilgrim's Pride® brand. PPC's co-founder and senior chairman, Lonnie "Bo" Pilgrim, is the featured spokesperson in its television, radio and print advertising, and a trademark cameo of a person wearing a Pilgrim's hat serves as the logo on all of PPC's primary branded products. As a result of this marketing strategy, Pilgrim's Pride® is a well-known brand name in a number of markets. PPC believes its efforts to achieve and maintain brand awareness and loyalty help to provide more secure distribution for its products. PPC also believes its efforts at brand awareness generate greater price premiums than would otherwise be the case in certain markets. PPC also maintains an active program to identify consumer preferences. The program primarily consists of discovering and validating new product ideas, packaging designs and methods through sophisticated qualitative and quantitative consumer research techniques in key geographic markets.

Due to internal growth and the impact of both the Gold Kist and ConAgra Chicken acquisitions, PPC's sales to the retail market from fiscal 2004 through fiscal 2008 grew at a compounded annual growth rate of 15.8% and represented 22.0% of the net sales of its U.S. chicken operations in fiscal 2008.

Retail-Prepared Chicken: PPC sells retail-oriented prepared chicken products primarily to grocery store chains located throughout the U.S. PPC's prepared chicken products sales to the retail market were \$518.6 million in fiscal 2008 compared to \$213.8 million in fiscal 2004, a compounded annual growth rate of approximately 24.8%. PPC believes that its growth in this market segment will continue as retailers concentrate on satisfying consumer demand for more products that are quick, easy and convenient to prepare at home.

Retail-Fresh Chicken: PPC's prepackaged retail products include various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer's fresh meat counter. PPC's retail fresh chicken products are sold in the midwestern, southwestern, southeastern and western regions of the U.S. Its fresh chicken sales to the retail market were \$1,041.4 million in fiscal 2008 compared to \$653.8 million in fiscal 2004, a compounded annual growth rate of approximately 12.3% resulting primarily from its acquisition of Gold Kist in 2007. PPC believes the retail prepackaged fresh chicken business will continue to be a large and relatively stable market, providing opportunities for product differentiation and regional brand loyalty.

Export and Other Chicken Products: PPC's export and other chicken products, with the exception of its exported prepared chicken products, consist of whole chickens and chicken parts sold primarily in bulk, non-branded form either refrigerated to distributors in the U.S. or frozen for distribution to export markets. In the U.S., prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the USDA or other public price reporting services. PPC sells U.S.-produced chicken products for export to Eastern Europe, including Russia; the Far East, including China; Mexico; and other world markets.

Historically, PPC has targeted international markets to generate additional demand for its dark chicken meat, which is a natural by-product of its U.S. operations given PPC's concentration on prepared chicken products and the U.S. customers' general preference for white chicken meat. PPC also has begun selling prepared chicken products for export to the international divisions of its U.S. chain restaurant customers. PPC believes that U.S. chicken exports will continue to grow as worldwide demand increases for high-grade, low-cost meat protein sources. Also included in this category are chicken by-products, which are converted into protein products and sold primarily to manufacturers of pet foods.

#### 6. Markets for Other Products—U.S.

PPC's other products consist of: (a) other types of meat protein along with various other staples purchased and sold by PPC's distribution centers as a convenience to its chicken customers who purchase through the distribution centers; and (b) the production and sale of table eggs, commercial feeds and related items, live hogs and proteins.

The following table sets forth, for the periods beginning with fiscal 2004, net sales attributable to each of PPC's primary product lines and markets served with those products. PPC based the table on its internal sales reports and its classification of product types and customers.



	Fiscal 2008 (52 weeks)	Fiscal 2007(a) (52 weeks)	Fiscal 2006 (52 weeks) (In thousands)	Fiscal 2005 (52 weeks)	Fiscal 2004(a) (53 weeks)
U.S. chicken:					
Prepared chicken:					
Foodservice	\$ 2,033,489	\$ 1,897,643	\$ 1,567,297	\$ 1,622,901	\$ 1,647,904
Retail	518,576	511,470	308,486	283,392	213,775
Total prepared chicken	2,552,065	2,409,113	1,875,783	1,906,293	1,861,679
Fresh chicken:					
Foodservice	2,550,339	2,280,057	1,388,451	1,509,189	1,328,883
Retail	1,041,446	975,659	496,560	612,081	653,798
Total fresh chicken	3,591,785	3,255,716	1,885,011	2,121,270	1,982,681
Export and other:					
Export:					
Prepared chicken	94,795	83,317	64,338	59,473	34,735
Fresh chicken	818,239	559,429	257,823	303,150	212,611
Total export(c)	913,034	642,746	322,161	362,623	247,346
Other chicken by-products	20,163	20,779	15,448	21,083	(b)
Total export and other	933,197	663,525	337,609	383,706	247,346
Total U.S. chicken	7,077,047	6,328,354	4,098,403	4,411,269	4,091,706
Mexico chicken	543,583	488,466	418,745	403,353	362,442
Total chicken	7,620,630	6,816,820	4,517,148	4,814,622	4,454,148
Other products:					
U.S.	869,850	661,115	618,575	626,056	600,091
Mexico	34,632	20,677	17,006	20,759	23,232
Total other products	904,482	681,792	635,581	646,815	623,323
Total net sales	\$ 8,525,112	\$ 7,498,612	\$ 5,152,729	\$ 5,461,437	\$ 5,077,471
Total prepared chicken	\$ 2,646,860	\$ 2,492,430	\$ 1,940,121	\$ 1,965,766	\$ 1,896,414

(a) The Gold Kist acquisition on December 27, 2006, and the ConAgra Chicken acquisition on November 23, 2003, have been accounted for as purchases.

(b) The Export and other category historically included the sales of certain chicken by-products sold in international markets as well as the export of chicken products. Prior to fiscal 2005, by-product sales were not specifically identifiable within the Export and other category. Accordingly, a detailed breakout is not available prior to such time; however, PPC believes that the relative split between these categories as shown in fiscal 2005 would not be dissimilar in fiscal 2004.

(c) Export items include certain chicken parts that have greater value in the overseas markets than in the U.S.

The following table sets forth, beginning with fiscal 2004, the percentage of net U.S. chicken sales attributable to each of PPC's primary product lines and the markets serviced with those products. PPC based the table and related discussion on its internal sales reports and its classification of product types and customers.

	Fiscal 2008		Fiscal 2007(a)		Fiscal 2006		Fiscal 2005		Fiscal 2004(a)
Prepared chicken:									
Foodservice	28.8	%	30.1	%	38.2	%	36.8	%	40.3
Retail	7.3	%	8.1	%	7.5	%	6.4	%	5.2

Total prepared chicken	36.1	%	38.2	%	45.7	%	43.2	%	45.5	%
Fresh chicken:										
Foodservice	36.0	%	36.0	%	33.9	%	34.2	%	32.5	%
Retail	14.7	%	15.4	%	12.1	%	13.9	%	16.0	%
Total fresh chicken	50.7	%	51.4	%	46.0	%	48.1	%	48.5	%
Export and other:										
Export:										
Prepared chicken	1.3	%	1.3	%	1.6	%	1.3	%	0.8	%
Fresh chicken	11.6	%	8.8	%	6.3	%	6.9	%	5.2	%
Total export(c)	12.9	%	10.1	%	7.9	%	8.2	%	6.0	%
Other chicken by-products	0.3	%	0.3	%	0.4	%	0.5	%	(b)	%
Total export and other	13.2	%	10.4	%	8.3	%	8.7	%	6.0	%
Total US chicken	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%
Total prepared chicken as a percent of U.S. chicken	37.4	%	39.5	%	47.3	%	44.5	%	46.3	%

(a) The Gold Kist acquisition on December 27, 2006, and the ConAgra Chicken acquisition on November 23, 2003, have been accounted for as purchases.

(b) The Export and other category historically included the sales of certain chicken by-products sold in international markets as well as the export of chicken products. Prior to fiscal 2005, by-product sales were not specifically identifiable within the Export and other category. Accordingly, a detailed breakout is not available prior to such time; however, PPC believes that the relative split between these categories as shown in fiscal 2005 would not be dissimilar in fiscal 2004.

(c) Export items include certain chicken parts that have greater value in the overseas markets than in the U.S.

PPC has regional distribution centers located in Arizona, Texas and Utah that are primarily focused on distributing its own chicken products; however, the distribution centers also distribute certain poultry and non-poultry products purchased from third parties to independent grocers and quick-service restaurants. PPC's non-chicken distribution business is conducted as an accommodation to its customers and to achieve greater economies of scale in distribution logistics. Chicken sales from the Debtors' regional distribution centers are included in the chicken sales amounts contained in the above tables; however, all non-chicken sales amounts are contained in the Other Products sales in the above tables.

PPC markets fresh eggs under the Pilgrim's Pride® brand name, as well as under private labels, in various sizes of cartons and flats to U.S. retail grocery and institutional foodservice customers located primarily in Texas. PPC has a housing capacity for approximately 2.1 million commercial egg laying hens which can produce approximately 42 million dozen eggs annually. U.S. egg prices are determined weekly based upon reported market prices. The U.S. egg industry has been consolidating over the last few years, with the 25 largest producers accounting for more than 65% of the total number of egg laying hens in service during 2008. PPC competes with other U.S. egg producers primarily on the basis of product quality, reliability, price and customer service.

PPC produces and sells livestock feeds at its feed mill in Mt. Pleasant, Texas, and at its farm supply store in Pittsburg, Texas, to dairy farmers and livestock producers in northeastern Texas. PPC engages in similar sales activities at its other U.S. feed mills.

PPC also has a small pork operation that it acquired through the Gold Kist acquisition that raises and sells live hogs to processors.

## 7. Product Types—Mexico

The Mexico market represented approximately 6.8% of PPC's net sales in fiscal 2008. PPC is the second-largest producer and seller of chicken in Mexico. PPC believes that it is one of the lower-cost producers of chicken in Mexico.

While the market for chicken products in Mexico is less developed than in the U.S., with sales attributed to fewer, more basic products, PPC has been successful in differentiating its products through high-quality client service and product improvements such as dry-air chilled, eviscerated products. The supermarket chains consider PPC the leader in innovation for fresh products. The market for value-added products is increasing. PPC's strategy is to capitalize on this trend through its vast U.S. experience in both products and quality and its well-known service.

## 8. Markets for Chicken Products—Mexico

PPC sells its chicken products primarily to wholesalers, large restaurant chains, fast food accounts, supermarket chains and direct retail distribution in selected markets. PPC has national presence and is currently present in all but four of the 32 Mexican States, which in total represent 95% of the Mexican population.

## 9. Competition

The chicken industry is highly competitive and PPC is one of largest producers of chicken in the U.S., Mexico and Puerto Rico. PPC's recent liquidity constraints have had a negative effect on its competitive position, relative to its competitors that are less leveraged. In the U.S., Mexico and Puerto Rico, PPC competes principally with other vertically integrated poultry companies.

In general, the competitive factors in the U.S. chicken industry include price, product quality, product development, brand identification, breadth of product line and customer service. Competitive factors vary by major market. In the U.S. retail market, PPC believes that product quality, brand awareness, customer service and price are the primary bases of competition. In the foodservice market, competition is based on consistent quality, product development, service and price. There is some competition with non-vertically integrated further processors in the U.S. prepared chicken business. PPC believes vertical integration generally provides significant, long-term cost and quality advantages over non-vertically integrated further processors.

In Mexico, where product differentiation has traditionally been limited, product quality, service and price have been the most critical competitive factors. In July 2003, the U.S. and Mexico entered into a safeguard agreement with regard to imports into Mexico of chicken leg quarters from the U.S. Under this agreement, a tariff rate for chicken leg quarters of 98.8% of the sales price was established. This tariff was imposed because of concerns that the duty-free importation of such products as provided by the North American Free Trade Agreement would injure Mexico's poultry industry. This tariff rate was eliminated on January 1, 2008. As a result of the elimination of this tariff, PPC expects greater amounts of chicken to be imported into Mexico from the U.S. This could negatively affect the profitability of Mexican chicken producers, including PPC's Mexico operations.

PPC is not a significant competitor in the distribution business as it relates to products other than chicken. PPC distributes these products solely as a convenience to its chicken customers. The broad-line distributors do not consider PPC to be a factor in those markets. The competition related to PPC's other products such as table eggs, feed and protein are much more regionalized and no one competitor is dominant.

#### 10. Key Customers

PPC's two largest customers accounted for approximately 16% of its net sales in fiscal 2008, and its largest customer, Wal-Mart Stores Inc., accounted for 11% of its net sales.

#### 11. Regulation and Environmental Matters

The chicken industry is subject to government regulation, particularly in the health and environmental areas, including provisions relating to the discharge of materials into the environment, by the USDA, the Food and Drug Administration ("FDA") and the Environmental Protection Agency ("EPA") in the U.S. and by similar governmental agencies in Mexico. PPC's chicken processing facilities in the U.S. are subject to on-site examination, inspection and regulation by the USDA. The FDA inspects the production of PPC's feed mills in the U.S. PPC's Mexican food processing facilities and feed mills are subject to on-site examination, inspection and regulation by a Mexican governmental agency that performs functions similar to those performed by the USDA and FDA. PPC believes that it is in substantial compliance with all applicable laws and regulations relating to the operations of its facilities.

PPC anticipates increased regulation by the USDA concerning food safety, by the FDA concerning the use of medications in feed and by the EPA and various other state agencies concerning discharges to the environment. Currently PPC does not anticipate any regulations having a material adverse effect upon it, however, changes in laws or regulations or the application thereof may lead to government enforcement actions and the resulting litigation by private litigants. Additionally, unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect PPC's business or operations in the future.

### **C. Employees and Employee Compensation and Benefit Programs**

As of September 1, 2009, the Debtors employed approximately 36,800 persons in the U.S. and approximately 4,600 persons in Mexico. There are 10,400 employees at various facilities in the U.S. who are members of collective bargaining units. In Mexico, approximately 2,600 employees are covered by collective bargaining agreements. The Debtors have not experienced any work stoppage at any location in over five years.

The Debtors have a variety of employee compensation and benefit programs, including the programs summarized on Schedule 1.34 of the Plan. The Plan contemplates assumption of the Compensation and Benefit Programs. With respect to assumption of their pension plans, the Debtors plan to continue to meet the minimum funding requirements under the Pilgrim's Pride Pension Plan for Legacy GoldKist Employees, the Pilgrim's Pride Retirement Plan for Union Employees and the Pilgrim's Pride Retirement Plan for El Dorado Union Employees, which currently is anticipated to be through cash.

### **D. Debtors' Significant Indebtedness**

#### 1. The Credit Agreements

Prior to the Commencement Date, Pilgrim's Pride's primary sources of funding was: (i) a revolving credit facility, dated as of February 8, 2007 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "BMO Credit Agreement"), by, among others, PPC and its debtor subsidiaries To-Ricos, Ltd. and To-Ricos Distribution, Ltd., as borrowers, Bank of Montreal, Chicago Branch ("BMO"), as administrative agent, and certain other banks thereto (such bank parties, collectively with BMO, the "BMO Lending Group"); and (ii) a revolving credit facility and term loan, dated as of September 21, 2006 (as amended, restated, amended and restated, supplemented or

otherwise modified from time to time, the “CoBank Credit Agreement”), by, among others, PPC, as borrower, CoBank ACB (“CoBank”), as administrative agent, and the other agents and syndication parties signatory thereto (collectively with CoBank, the “CoBank Lending Group”).

The BMO Credit Agreement provided for a revolving credit facility of \$300 million and was secured by inventory, farm products and accounts receivable of PPC whether owned or existing or thereafter created, including all claims and rights of PPC against any of its growers. The BMO Credit Agreement is to mature on February 8, 2013. As of Commencement Date, the aggregate principal amount outstanding under the BMO Agreement was approximately \$311 million.

The CoBank Credit Agreement provided for a Revolving Credit Facility of \$550 million and a term loan of \$750 million secured by substantially all of PPC’s real property interests, furniture, fixtures and equipment located at, or used in connection with, the poultry hatching, raising, slaughtering, processing, packaging, and shipping operations and facilities located in the U.S. The CoBank Credit Agreement is to mature on September 16, 2011. As of the Commencement Date, the aggregate principal amount outstanding under the CoBank Credit Agreement was approximately \$1.127 billion.

One-half of the outstanding indebtedness under the CoBank Credit Agreement and the BMO Credit Agreement was guaranteed by Pilgrim Interests, Ltd. pursuant to the Amended and Restated Guaranty of Pilgrim Interests, Ltd. to the Lender Group and CoBank, ACB, as Agent, dated as of September 21, 2006 (the “CoBank Guarantee Agreement”) and the Pilgrim’s Pride Corporation Second Amended and Restated Guaranty Agreement, dated as of February 8, 2007 (the “BMO Guarantee Agreement”) and together with the CoBank Guarantee Agreement, the “Guarantee Agreements”), respectively. Pilgrim Interests, Ltd. is an entity controlled by Lonnie “Bo” Pilgrim and his family. Pursuant to the Agreement between PPC and Pilgrim’s Interests, Ltd., effective as of June 11, 1999, PPC is obligated to pay Pilgrim Interests, Ltd. a quarterly fee equal to 1/4 of a percent multiplied by average daily balance of the principal amount of the debt guaranteed by Pilgrim’s Interests, Ltd. pursuant to the Guarantee Agreements. By their terms, the obligations under the Guarantee Agreements continue in full force and effect only so long as obligations under the CoBank Credit Agreement and the BMO Credit Agreement are outstanding.

## 2. Purchase Receivables

PPC was also party to (i) the Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Amended and Restated Receivables Purchase Agreement”), by and among PPC, as servicer, Pilgrim’s Pride Funding Corporation, a non-debtor subsidiary of PPC (“PPFC”), as seller, BMO Capital Markets, as administrator, and various purchasers and purchaser agents from time to time parties thereto and (ii) the Purchase and Contribution Agreement, dated as of June 26, 2008 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Purchase and Contribution Agreement”), by and between PPC and PPFC. Pursuant to the Purchase and Contribution Agreement, PPC would sell a pool of accounts receivable from customers, on a revolving basis, to PPFC. Pursuant to the Amended and Restated Receivables Purchase Agreement, PPFC would then sell undivided interests in the receivables to an outside conduit, which committed, under certain circumstances and subject to certain conditions, to purchase undivided interests in those receivables. PPC would retain servicing responsibility over servicing all receivables subject to the Amended and Restated Receivables Purchase Agreement. The Amended and Restated Receivables Purchase Agreement also, among other things, gave BMO Capital Markets certain control over lock-box and collection accounts established in connection with such agreement. The Amended and Restated Receivables Purchase Agreement was terminated on December 3, 2008, and all receivables thereunder were repurchased with the proceeds of borrowings under the DIP Credit Agreement.

### 3. Indentures

PPC is the issuer of the following notes under the following indentures: (i) approximately \$400 million aggregate principal amount outstanding of 7 5/8% Senior Notes, maturing May 1, 2015 (the "Senior Notes"), pursuant to the Senior Debt Securities Indenture, dated as of January 24, 2007, by and between PPC and Wells Fargo Bank, National Association ("Wells Fargo") and the First Supplemental Indenture, dated as of January 24, 2007, by and between PPC and Wells Fargo; (ii) approximately \$250 million aggregate principal amount outstanding of 8 3/8% Senior Subordinated Notes, maturing May 1, 2017 (the "Subordinated Notes"), pursuant to the Senior Subordinated Debt Securities Indenture, dated as of January 27, 2007, by and between PPC and Wells Fargo and the First Supplemental Indenture, dated as of January 24, 2007, by and between PPC and Wells Fargo; and (iii) approximately \$6.996 million aggregate principal amount outstanding of 9 1/4% Senior Subordinated Notes, due November 15, 2013 (the "Senior Subordinated Notes," and, together with the Senior Notes and the Subordinated Notes, the "Notes"), pursuant to the Subordinated Indenture, dated as of November 21, 2003, between PPC and The Bank of New York ("BNY"). None of PPC's subsidiaries is a guarantor under any of the Notes. The Senior Notes are unsecured senior obligations of PPC and rank equally with all of PPC's other senior indebtedness and are effectively subordinated to PPC's existing and future secured obligations and to the indebtedness of PPC's subsidiaries. The Subordinated Notes are unsecured senior subordinated obligations of PPC, are subordinated to PPC's senior obligations and are effectively subordinated to PPC's existing and future secured obligations and the indebtedness of PPC's subsidiaries. The Subordinated Notes rank pari passu with the Senior Subordinated Notes. HSBC Bank USA, National Association, is the successor Indenture Trustee to Wells Fargo with respect to the Senior Notes. BNY is the successor trustee to Wells Fargo with respect to the Subordinated Notes.

### 4. Industrial Revenue Bond Debt

In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by PPC under the BMO Credit Agreement. The revenue bonds were scheduled to become due in 2029. Prior to the Commencement Date, the proceeds were available for PPC to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds would continue to be held by the trustee of the bonds until PPC drew on the proceeds for the construction of the facility. PPC had not drawn on the proceeds or commenced construction of the facility prior to the Commencement Date. The filing of the chapter 11 Cases constituted an event of default under the revenue bonds. As a result of the event of default, the trustee had the right to accelerate all obligations under the bonds such that they would become immediately due and payable, subject to an automatic stay of any action to collect, assert or recover a claim against PPC and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the BMO Credit Agreement and secured by PPC's domestic chicken inventories. On January 29, 2009, PPC obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. PPC received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

In addition, PPC is also a party to a number of lease agreements backing certain industrial revenue bonds ("IRBs") issued by various municipalities. The IRBs were issued to fund construction of facilities in these municipalities, which in turn were leased to PPC. The lease payments on the facilities

satisfy the amounts due on the bonds. As of the Commencement Date, PPC had at least \$39.2 million outstanding pursuant to IRBs held by third parties.<sup>1</sup>

#### 5. Trade Debt

As of the Commencement Date, the Debtors' books and records reflected approximately \$200 million of accrued and outstanding claims related to prepetition purchases of goods and services in the ordinary course of business, including claims of the Debtors' growers, vendors, common carriers, catchers and haulers, sales brokers and other providers of goods and services.

#### E. **Common Stock**

As of the Commencement Date, PPC had over 74 million shares of common stock outstanding. Through two limited partnerships and related trusts and voting agreements, Lonnie "Bo" Pilgrim, his wife Patricia Pilgrim, and his son, Lonnie Ken Pilgrim, control 62.225% of the voting power of PPC's outstanding common stock as of the Commencement Date.

### IV.

## OVERVIEW OF CHAPTER 11 CASES

#### A. **Significant Events Leading to the Commencement of the Chapter 11 Cases**

During the 12 months prior to the Commencement Date, the underlying economics of the poultry industry had deteriorated dramatically. Profitability in the chicken industry was materially affected by the commodity prices of feed ingredients. The Debtors' financial difficulties were attributable to a number of different factors, each of which is discussed below.

##### 1. Increase in Corn and Soybean Meal Prices

The cost of corn and soybean meal, the Debtors' primary feed ingredients, increased significantly in the year prior to the Commencement Date as a result of, among other things, increasing demand for these products around the world and because of the passage of the Energy Independence and Security Act of 2007. That act requires a gradual increase in the production of biofuels, including ethanol (which is predominantly made from corn in the U.S.) from 9 billion gallons in 2008 to 36 billion gallons by 2022. As a result, the demand for, and price of, corn has increased. The price of corn has historically been in the \$2 to \$3 per bushel range, but rose as high as \$7.63 per bushel in late June of 2008, resulting in significantly higher feed expenses for the Debtors which in turn, contributed to significant financial losses. The Debtors' attempt to hedge their feed ingredients costs against an increase in commodity prices during the fourth quarter of fiscal year 2008 resulted in increased losses when the price of corn abruptly reversed course from its record highs and began to decline in July and throughout the remainder of the summer and into the fall of 2008.

##### 2. Increase in the Cost of Energy

The cost of energy had also significantly increased. The Debtors operate nearly three dozen processing plants and their infrastructure includes production and manufacturing equipment, as

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<sup>1</sup> As of the Commencement Date, these IRBs were supported by letters of credit. In addition, as of the Commencement Date, PPC had approximately \$138.05 million outstanding pursuant to certain IRBs held by certain of PPC's wholly owned subsidiaries. PPC does not account for these obligations on its balance sheet and does not factor in the intercompany IRB debt in its aggregate amount of outstanding secured debt.

well as associated transportation delivery costs. Due to higher energy prices, it became necessary for the Debtors to allocate more of their budget to fund fuel and other energy costs to ensure the smooth functioning of the Debtors' operations.

### 3. Oversupply in the Poultry Industry

In addition to the increases in the cost of feed ingredients and the cost of energy, the supply of chicken products had continued to exceed profitable demand, leading to an oversupply in the industry. Further, the chicken industry experienced increased competition from other meat proteins (*i.e.*, beef and pork) as these meat proteins producers liquidated livestock to mitigate the adverse effects of soaring feed ingredient costs. In addition, the U.S. chicken industry, like other industries, has been negatively affected by the downturn in the nation's economy. This has resulted in reduced demand for chicken products in general, including Pilgrim's Pride's products, and has made it more difficult for the Debtors to increase product pricing to offset their higher costs for feed and energy. Market pricing for chicken breast meat during the summer months – historically a time of peak demand – proved much weaker than expected in the summer of 2008.

### 4. Competitive Environment

In addition to the steady sales declines, the Debtors were also operating in an extremely competitive environment and industry.

### 5. The Need for a Financial Restructuring

After pursuing operational and strategic restructuring initiatives, the Debtors came to recognize that a financial restructuring would also be necessary. On September 25, 2008, PPC announced that, based on preliminary results, it had notified its lenders that PPC expected to report a significant loss in the fiscal fourth quarter ending September 27, 2008. As a result of this expected loss, PPC informed its lenders that it did not expect to be in compliance with the fixed charge coverage ratio covenant under its principal credit facilities as of the fiscal year ending September 27, 2008. After discussions with the BMO Lending Group, the CoBank Lending Group, and BMO Capital Markets, the Debtors executed temporary waivers of the covenant default.

Specifically, with respect to the CoBank Credit Agreement, PPC entered into a Limited Duration Waiver of Potential Defaults and Events of Default under the Credit Agreement (the "First CoBank Waiver") with the CoBank Lending Group. Pursuant to the First CoBank Waiver, the CoBank Lending Group agreed for the period beginning September 26, 2008 and ending October 28, 2008 (the "First CoBank Waiver Period") to waive potential defaults and events of defaults arising from PPC's failure to maintain a certain minimum fixed charge coverage ratio under the CoBank Credit Agreement. As part of the First CoBank Waiver, during the First CoBank Waiver Period, PPC agreed to maintain aggregate undrawn commitments under the CoBank Credit Agreement and the BMO Credit Agreement of at least \$100 million.

Similarly, with respect to the BMO Credit Agreement, PPC, To-Ricos, Ltd. and To-Ricos Distribution, Ltd. entered into a Limited Duration Waiver Agreement (the "First BMO Waiver") with the BMO Lending Group. Pursuant to the First BMO Waiver, the BMO Lending Group agreed for the period beginning September 28, 2008 and ending October 28, 2008 (the "First BMO Waiver Period") to waive the default arising from the failure of the applicable Debtors to maintain a certain minimum fixed charge coverage ratio under the BMO Credit Agreement. The First BMO Waiver also required the borrower to maintain aggregate undrawn commitments under the CoBank Credit Agreement and the BMO Credit Agreement of at least \$100 million.



In connection with the First CoBank Waiver and the First BMO Waiver, PPC and PPFC entered into a Limited Duration Waiver Agreement (the "First RPA Waiver") with BMO Capital Markets and Fairway Finance Company, LLC ("Fairway") related to the Amended and Restated Receivables Purchase Agreement. Pursuant to the First RPA Waiver, BMO Capital Markets and Fairway granted PPC a waiver during the First CoBank Waiver Period of its non-compliance with its covenant to maintain a minimum fixed charge coverage ratio under the Amended and Restated Receivables Purchase Agreement. Pursuant to the First RPA Waiver, in addition to maintaining aggregate undrawn commitments under the CoBank Credit Agreement and the BMO Credit Agreement of at least \$100 million, PPC was required to enter into new lockbox agreements no later than October 15, 2008.

A contraction of trade credit in September and October of 2008 further exacerbated Pilgrim's Pride's liquidity issues and put additional stress on the banking relationships.

On October 26, 2008, PPC entered into another Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement (the "Second CoBank Waiver") with the CoBank Lending Group. Pursuant to the Second CoBank Waiver, the CoBank Lending Group agreed for the period beginning October 26, 2008 and ending November 26, 2008 (the "Second CoBank Waiver Period") to waive defaults and potential events of default under the CoBank Credit Agreement arising from PPC's failure to maintain a certain minimum fixed charge coverage ratio and PPC's failure to maintain a certain leverage ratio. As part of the Second CoBank Waiver, during the Second CoBank Waiver Period, PPC agreed, among other things, to maintain aggregate undrawn commitments under the CoBank Credit Agreement and the BMO Credit Agreement of at least \$35 million. Any payments by PPC of interest on the Senior Notes or the Subordinated Notes would result in termination of the Second CoBank Waiver Period.

On October 26, 2008, PPC, To-Ricos, Ltd. and To-Ricos Distribution, Ltd. entered into a Limited Duration Waiver Agreement (the "Second BMO Waiver") with the BMO Lending Group. Pursuant to the Second BMO Waiver, the BMO Lending Group agreed for the period beginning October 28, 2008 and ending on November 26, 2008 (the "Second BMO Waiver Period") to waive the defaults under the BMO Credit Agreement arising from the failure of the applicable Debtors to maintain a certain minimum fixed charge coverage ratio and a certain minimum leverage ratio. Any payments by PPC of interest on the Senior Notes or the Subordinated Notes would result in termination of the Second BMO Waiver Period.

In connection with the Second CoBank Waiver and the Second BMO Waiver, PPC and PPFC entered into a Limited Duration Waiver Agreement (the "Second RPA Waiver") with BMO Capital Markets and Fairway. Pursuant to the Second RPA Waiver, BMO Capital Markets and Fairway granted PPC a waiver during the period beginning October 28, 2008 and ending on November 26, 2008 (the "Second RPA Waiver Period") of its non-compliance with its covenants to maintain a minimum fixed charge coverage ratio and a certain minimum leverage ratio under the Amended and Restated Receivables Purchase Agreement. Any payments by PPC of interest on the Senior Notes or the Subordinated Notes would result in termination of the Second RPA Waiver Period.

#### 6. Prepetition Restructuring Efforts

In response to the continued imbalance between supply and demand and in an effort to reduce the impact of the aforementioned market difficulties, the Debtors took a number of proactive steps in 2008 to strengthen their competitive position and restore profitability. Beginning in early 2008, the Debtors conducted a thorough review of all their production facilities to ensure their operations were functioning as efficiently as possible and to identify opportunities for improvement. These proactive steps included: the sale of the Debtors' turkey business; the closure of three processing facilities and

seven distribution centers; the shortening of annual fixed-price sales contracts to generally 90-day periods; production cutbacks; reduced capital spending; increased focus on exports; and increases focus on production of prepared food products with greater profit margin. In mid-July 2008 the Debtors announced their intent to transfer their tray-packing operations in El Dorado, Arkansas, to six other sites. In the aggregate, the Debtors' restructuring efforts during the preceding 12 months leading up to the Chapter 11 filing resulted in the elimination of more than 4,500 positions and the closure of three plant facilities and seven distribution centers.

In addition, on May 16, 2008, PPC announced that it had completed a public offering of 7.5 million shares of its common stock for net aggregate consideration to the Debtors of approximately \$177 million. PPC used these funds to reduce burdensome indebtedness under two of its revolving credit facilities and to fund general corporate purposes.

In the months prior to the bankruptcy filing, the Debtors considered various out-of-court restructuring alternatives. They retained Bain Corporate Renewal Group, LLC and Lazard Freres & Co. LLC ("Lazard") to work as their advisors in connection with operational and balance sheet restructuring alternatives. In November 2008, PPC also appointed William K. Snyder, managing partner of CRG Partners Group, LLC ("CRG Partners"), as chief restructuring officer ("CRO") to assist PPC in capitalizing on cost reduction initiatives, developing restructuring plans, and exploring opportunities to improve PPC's long-term liquidity. However, due to the worldwide credit crisis, no viable out-of-court balance sheet restructuring alternative materialized. As the Debtors' liquidity position continued to worsen, and the end of the applicable waiver periods approached, the Debtors determined that the only method to protect the interests of all stakeholders was to seek protection under the Bankruptcy Code.

## **B. Commencement of Chapter 11 Cases and First Day Orders**

On December 1, 2008 (the "Commencement Date"), PPC and six (6) of its subsidiaries; Pilgrim's Pride Corporation of West Virginia, Inc., PPC Marketing, Ltd., PPC Transportation Company, To-Ricos Distribution, Ltd., To-Ricos, Ltd. and PFS Distribution Company (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Chapter 11 Cases have been jointly administered under a single case heading and number, *In re: Pilgrim's Pride Corporation, et al.*, Case No. 08-45664 (DML), before the Honorable D. Michael Lynn. Since the Commencement Date, the Debtors have continued to operate their businesses and manage their property as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

As part of the filing of the Chapter 11 Cases, the Debtors filed typical "first day" motions seeking relief designed to minimize disruption to the Debtors' businesses and to facilitate reorganization. Those first day motions and the orders entered by the Bankruptcy Court are discussed generally below. Although the motions and orders are described as "first day," not all of the relief was actually granted on the first day of the Chapter 11 Cases.

### **1. Case Administration**

The Bankruptcy Court entered a number of procedural orders to streamline and simplify the administration of the Chapter 11 Cases. These orders: (a) authorized the joint administration of the Chapter 11 Cases, allowing most documents to be filed in the lead case; (b) granted an extension of time to file the Debtors' schedules of assets and liabilities and statements of financial affairs; (c) established notice procedures for sending notices to parties-in-interest; (d) authorized the Debtors' to employ Weil, Gotshal & Manges LLP as general counsel, Lazard as investment banker, Baker & McKenzie LLP as special counsel, Kurtzman Carson Consultants as claims agent, Gardere Wynne Sewell LLP as special counsel, CRG Partners as financial advisor, and William Snyder as CRO; and (e) authorized the Debtors

to continue using other professionals in the ordinary course of their businesses under defined circumstances.

2. Critical Obligations

To allow the Debtors to maintain their operations during the Chapter 11 Cases, the Bankruptcy Court authorized certain payments on pre-petition obligations. The Bankruptcy Court allowed the Debtors to satisfy certain outstanding pre-petition obligations including those related to: (a) wages, compensation, and employee benefits; (b) sales, use, property and other types of taxes; (c) growers, haulers, catchers, feed ingredient suppliers, and sales brokers; (d) goods and services ordered pre-petition but delivered post-petition; (e) critical trade vendors; (f) customers and customer programs; and (g) common carrier fees, logistics coordinator fees, warehouse fees, freight forwarding fees and repairmen fees.

3. Business Operations

The Bankruptcy Court granted the Debtors the authority to continue certain business operations. Among other things, the Bankruptcy Court (a) authorized the Debtors' to continue certain workers' compensation and other insurance policies and (b) prohibited the Debtors' utilities service providers from altering, refusing or discontinuing service upon the establishment of certain procedures for determining adequate assurance of payment.

4. Financial Operations

The Bankruptcy Court authorized the Debtors to maintain their existing bank accounts and forms and to continue their centralized cash management system.

**C. Debtor-in-Possession Financing**

On December 31, 2008, the Bankruptcy Court granted final approval authorizing the debtors to enter into the DIP Credit Agreement. The DIP Credit Agreement provided aggregate funding of up to \$450 million on a revolving basis, which was subsequently reduced to \$350 million in connection with the third amendment thereto. The obligations under the DIP Credit Agreement bore interest at 8% plus the greater of prime rate, average federal funds rate plus 0.5%, or the London Interbank Offered Rate plus 1%. The borrowings under the DIP Credit Agreement have been repaid in full during the course of the Chapter 11 Cases, but the Borrowers may still draw upon the commitments under DIP Credit Agreement until the termination of the DIP credit facility.

Throughout the Chapter 11 Cases, the Bankruptcy Court has entered certain orders approving amendments to the DIP Credit Agreement. On April 14, 2009, the Bankruptcy Court approved the first amendment to the DIP Credit Agreement, in connection with the idling of certain of the Debtors' facilities. On June 15, 2009, the Bankruptcy Court approved a second amendment to the DIP Credit Agreement, in connection with certain technical amendments to the DIP Credit Agreement and to enable the Debtors to enter into a postpetition surety facility, including posting of additional collateral. On August 11, 2009, the Bankruptcy Court approved a third amendment to the DIP Credit Agreement to permit the Debtors to enter into certain hedging transactions and to invest in certain interest bearing accounts and government securities. The term of the DIP Credit Agreement currently extends through December 1, 2009.

## **D. Appointment of Statutory Committees and Fee Review Committee**

### 1. Creditors' Committee

On December 7, 2008, the United States Trustee appointed the Creditors' Committee, which retained the law firm of Andrews Kurth, LLP as its counsel and Moelis & Company LLC ("Moelis") as its financial advisor. The current members of the Creditors' Committee are: AlaTrade Foods, LLC, The Bank of New York Mellon Trust, Calamos Advisors LLC, HSBC Bank USA, National Association, International Paper Company, Kornitzer Capital Management/Great Plains Trust Company Buffalo Funds, Newly Weds Foods, Inc., Oaktree Capital Management, L.P. and Pension Benefit Guaranty Corp.

### 2. Equity Committee

On June 18, 2009, the United States Trustee appointed the Equity Committee, which retained the law firm of Brown Rudnick LLP as co-counsel, Kelly Hart & Hallman, LLP as co-counsel and Houlihan Lokey Howard & Zukin Capital, Inc. as its financial advisor. The current members of the Equity Committee are M & G Investment Management Ltd. and Michael Cooper.

### 3. Fee Review Committee

On April 28, 2009, the Bankruptcy Court issued an order appointing Dean Nancy B. Rapoport ("Dean Rapoport") of the University of Nevada-Las Vegas School Law as the Bankruptcy Court's expert with respect to professional fees and expenses in the Chapter 11 Cases. Dean Rapoport was empowered to serve as chairperson of a fee review committee which is also composed of representatives of the Debtors, the BMO Lending Group, the CoBank Lending Group, the Committees, and the United States Trustee.

## **E. Restructuring Efforts During Bankruptcy**

Since filing for relief under the Bankruptcy Code on December 1, 2008, PPC has made a series of significant operational changes to reduce costs and operate more efficiently. The operational changes have been directed in two phases. Phase I focused on preserving cash and mitigating losses through tactical moves. The main actions in Phase I involved shift reductions and associated headcount reductions along with other lean manufacturing initiatives. Phase II reduced PPC's production footprint and served to mitigate capacity utilization and efficiency issues created by previously enacted across-the-board production cuts.

Phase I changes included:

- Consolidating or eliminating second shifts at Live Oak, Florida; Athens, Georgia; and Nacogdoches and Waco, Texas.
- Realigning operations into four geographic regions to flatten the organization, speed decision-making and reduce costs.
- Expanding focus on lean manufacturing to reduce waste and gain additional value from existing processes.
- Strengthening the management team by hiring senior-level industry veterans to oversee sales, marketing and business development. Jerry Wilson joined the

Company in early March 2009 as executive vice president of sales and marketing. He was previously vice president of sales and marketing for Keystone Foods. Greg Tatum joined the Company in February 2009 as senior vice president of business development. He previously served as chief financial officer of Claxton Poultry and served in a business development role previously at Seaboard Corporation.

- Total estimated savings from Phase I are projected to be approximately \$80 million per year.

Phase II changes included:

- Closing/idling processing facilities in El Dorado, Arkansas; Douglas, Georgia; and Farmerville, Louisiana, which produced mostly low-value commodity chicken. The Farmerville facility was subsequently sold to Foster Poultry Farms for approximately \$72.3 million in May 2009. These three plants employed a total of approximately 3,000 people – or approximately 7 percent of the Company’s total U.S. workforce. Approximately 500 independent contract growers who supply birds to these three plants also were affected.
- Closing its protein salad operation in Franconia, Pennsylvania, and shifting production to its further-processing facility in Moorefield, West Virginia.
- Closing its chicken processing plant in Dalton, Georgia, and consolidating production at the Company’s processing facility in Chattanooga, Tennessee.
- Total estimated savings from Phase II are projected to be approximately \$110 million per year.

In addition, PPC is realizing other business improvements and efficiency gains from ongoing actions and more favorable product mix. These ongoing improvements include reductions in Selling, General and Administrative (“SG&A”) expenses through administrative headcount reductions; supply chain and margin improvements; savings from contract rejections; and additional improvements.

The majority of PPC’s customers and suppliers have continued to do business with PPC through its reorganization. In addition, PPC has gained new business from a number of customers. This is a direct result of the strong relationships the Company has with so many of its business partners.

On July 24, 2009, the Debtors announced plans to idle two additional facilities located in Athens, Georgia and Athens, Alabama in order to obtain additional savings. The two plants are scheduled to cease production in early October. Production from the Athens, Alabama plant will be consolidated into two other PPC’s complexes, bringing those facilities to full capacity. Production from the Athens, Georgia, plant will be consolidated with several PPC complexes in north Georgia, bringing those facilities to full capacity. The Debtors do not expect that the collective closures will impair PPC’s ability to service any customers.

## **F. Material Asset Sales**

Section 363 of the Bankruptcy Code grants the Debtors the power, subject to approval of the Bankruptcy Court, to use, sell or lease property of the Debtors’ estates outside of the ordinary course of their business. During the Chapter 11 Cases, the Debtors received approval from the Bankruptcy Court to sell the following assets:

1. ADM Joint Venture

On February 23, 2009, with Bankruptcy Court approval, PPC sold a 50% interest in ADM/Gold Kist LLC, an entity which holds four grain elevators in the Midwest, to Archer-Daniels-Midland Company (which had owned the other 50%). The sale price was approximately \$5 million.

2. Plant City Distribution Center

On May 28, 2009, with Bankruptcy Court approval, PPC sold its Plant City distribution center to New Southern Food Distributors, Inc. for approximately \$2.6 million.

3. Cincinnati, Ohio Distribution Center

On July 30, 2009, with Bankruptcy Court approval, PPC sold its Cincinnati distribution center to Ralph Winterhalter for \$675,000.

4. Excess Land Sale

On July 24, 2009, with Bankruptcy Court approval, PPC sold approximately 2875 acres of undeveloped real property to Titus County Fresh Water District #1. The real property is located in Camp County and Titus County in east Texas near PPC's headquarters. The purchase price was approximately \$5.2 million.

5. Farmerville Complex

On May 21, 2009, PPC completed a Bankruptcy Court approved sale of its chicken processing complex in Farmerville, Louisiana, to Foster Poultry Farms for approximately \$72.3 million. The final sale price was adjusted for associated inventory and other reimbursements and was funded, in large part, by the State of Louisiana. The Farmerville complex includes a processing plant, an administrative office, two hatcheries, a feed mill and a protein conversion plant.

6. Other Sales

In addition to the foregoing sales, PPC has retained the services of Lakeshore Food Advisors to market the fresh egg business PPC owns jointly with Lonnie "Bo" Pilgrim. On September 14, 2009, PPC also entered into agreements to sell (i) approximately 882 acres of land in Camp County, Texas for approximately \$3.8 million; and (ii) Valley Rail Service, Inc., a subsidiary that holds a 46.5925% interest in Shenandoah Valley Railroad, LLC for approximately \$1 million, both subject to approval of the Bankruptcy Court.

**G. Negotiations and Settlements with the Unions**

As stated above, as of September 1, 2009, the Debtors employed approximately 36,800 persons in the U.S. and approximately 4,600 in Mexico. There are 10,400 employees at various facilities in the U.S. who are members of collective bargaining units. A substantial majority of the Debtors' unionized employees—approximately 80%—are represented by the United Food and Commercial Workers International Union and its various local affiliates, including the Retail, Wholesale, and Department Store Union (collectively, the "UFCW"). The Debtors also have collective bargaining agreements with the following unions and their local affiliates: (1) International Brotherhood of Teamsters ("IBT"); (2) Bakery, Confectionery, Tobacco Workers and Grain Millers International Union ("BCTW"); and (3) The United Steel Workers of America ("USW"). Since March 2009, PPC has been

involved in negotiations over modifications to its collective bargaining agreements with these unions in an attempt to seek relief from certain terms of the collective bargaining agreements that are necessary for PPC's successful reorganization.

As a result of PPC's negotiations with the unions, PPC reached a compromise and settlements with the UFCW, BCTW, and USW which avoided PPC having to seek relief from the Bankruptcy Court pursuant to section 1113 of the Bankruptcy Code. PPC's negotiations with IBT are ongoing.

The salient terms of PPC's agreements with the unions to modify the collective bargaining agreements are as follows:

- modify the obligations of PPC and its union-represented workers with regard to hours of work and payment of overtime;
- modify PPC's obligations with regard to providing health and welfare benefits;
- standardize the work week to 12:01 a.m. Sunday through the following Saturday at midnight;
- temporarily suspend the cash component of PPC's driver recognition program;
- suspend PPC's tuition reimbursement program until the Plan becomes effective;
- implement an "E-Payroll" system;
- standardize the number of paid holidays;
- provide for certain raises for bargaining unit employees and the payment by PPC of fees for the unions' professional advisors subject to review of invoices by PPC;
- extend all current agreements expiring during the remainder of 2009 and 2010 for an additional two years from expiration; and
- to the extent that the Plan contains exculpation or release provisions for PPC and its officers and employees, the Plan will include the same exculpation or release provisions with respect to the Unions.

On September 11, 2009, the Debtors filed a motion for an order approving PPC's settlement agreements with the UFCW, BCTW, and USW. The motion is expected to be heard by the Bankruptcy Court on October 13, 2009. PPC will seek further court action with respect to the proposed modifications of PPC's collective bargaining agreements with the IBT should it become necessary or appropriate to do so.

#### **H. 2009 Performance Bonus Plans**

During the Chapter 11 Cases, PPC's board of directors approved an incentive plan for the fiscal year 2009 for approximately 80 employees and executives, including senior vice presidents and above (who currently are not included in any incentive plan), vice presidents, complex managers and select manager-level employees (the "Key Employees") tasked with assisting the Debtors in their Chapter 11 Cases to incentivize the Key Employees to see the Debtors through a successful exit from bankruptcy.

The amounts to be paid to the Key Employees are linked to the Debtors' earnings before interest, taxes, depreciation, amortization and restructuring costs ("EBITDAR") in the third and fourth quarters of fiscal 2009 and the successful emergence of the Debtors from bankruptcy (participants are also required to still be employed on the date immediately preceding the Debtors' emergence from bankruptcy). Key Employees eligible to receive payments under this incentive plan who also participate in PPC's Performance Incentive Plan or who are parties to the Key Employee Incentive Compensation Agreements will receive only the highest amount payable under any of the three arrangements. PPC's board of directors also approved a similar incentive plan for Lonnie A. "Bo" Pilgrim, which, upon approval by the Bankruptcy Court, will be paid by issuance of additional PPC Common Stock. On September 4, 2009, the Debtors filed with the Bankruptcy Court a motion to approve the incentive plan for Key Employees. The motion is expected to be heard by the Bankruptcy Court on September 29, 2009.

## **I. Exclusivity**

Pursuant to section 1121(b) of the Bankruptcy Code, during the first 120 days after the commencement of their Chapter 11 Cases, the Debtors had an exclusive right to propose and file a chapter 11 plan (the "Plan Period"). They also had a period of 180 days after the commencement of their Chapter 11 Cases to obtain acceptance of such plan, during which time competing plans may not be filed (the "Solicitation Period"). On March 26, 2009, the Bankruptcy Court entered an order extending the Debtors' Plan Period through and including September 30, 2009 and each of the Debtors' Solicitation Period through and including November 30, 2009. On September 4, 2009, the Debtors filed a motion with the Bankruptcy Court to further extend the Plan Period and the Solicitation Period through and including December 31, 2009 and March 1, 2010, respectively. This motion is expected to be heard by the Bankruptcy Court on September 29, 2009.

## **J. Schedules and Statements**

On January 26, 2009, the Debtors filed with the Bankruptcy Court their schedules of assets and liabilities (the "Schedules"). The Debtors filed seven sets of Schedules, filed on behalf of each Debtor entity. On June 3, 2009, PFS Distribution Company and PPC each filed an amended summary of the Schedules.

On January 26, 2009, each Debtor entity filed a statement of financial affairs. The statements of financial affairs, among other things, list all payments made by the Debtors to creditors (non-insiders) within 90 days prior to the Commencement Date and all payments made by the Debtors to insiders within 1 year prior to the Commencement Date. Under the Plan, the Debtors and the Reorganized Debtors will retain the right to, among other things, pursue all avoidance actions under Chapter 5 of the Bankruptcy Code, including seeking to avoid as preferential transfers any of the payments disclosed on the Debtors' statements of financial affairs as having been made within 90 days or 1 year, as applicable, prior to the Commencement Date.

Subsequent to January 26, 2009, the Debtors have made certain amendments to the Schedules to include certain information that was inadvertently omitted or to correct certain information that was inadvertently in error.

## **K. Claims Reconciliation Process**

### **1. Unsecured Claims Bar Date**

By order dated April 1, 2009, the Bankruptcy Court fixed June 1, 2009 at 5:00 p.m. (prevailing Pacific Time), as the date and time by which proofs of claim (other than Administrative



Expense Claims) were required to be filed in the Debtors' bankruptcy cases (the "Bar Date"). In accordance with instructions from the Bankruptcy Court, notices informing creditors of the last date to timely file proofs of claims, and a "customized" proof of claim form, reflecting the nature, amount, and status of each creditor's claim as reflected in the Schedules, were mailed to all creditors listed on the Schedules. In addition, the Debtors caused to be published once in *The Wall Street Journal* (National Edition), the *USA Today*, *The Mount Pleasant Daily Tribune*, and the *El Nuevo Dia* a notice of the Bar Date.

2. Section 503(b)(9) Claims Bar Date

On December 31, 2008, the Bankruptcy Court entered the Order Pursuant to Section 503(b)(9) of the Bankruptcy Code to Establish and Implement Exclusive and Global Procedures for Submitting and Resolving Claims Relating to Goods Received Within Twenty Days Prior to the Commencement Date (the "503(b)(9) Order"). The 503(b)(9) Order fixed March 4, 2009 as the deadline for submitting requests for payment of claims pursuant to section 503(b)(9) of the Bankruptcy Code (the "Section 503(b)(9) Claims"). The 503(b)(9) Order also established procedures for resolving any disputed Section 503(b)(9) Claims. All Allowed Section 503(b)(9) claims will be paid in Cash in full on the Effective Date.

3. Administrative Expense Claim Bar Date

Pursuant to the Plan, the deadline for filing requests for payment of Administrative Expense Claims other than (i) claims of professionals retained in the Chapter 11 Cases, claims related to the debtor in possession financing and Section 503(b)(9) Claims, (ii) claims for liability incurred and payable in the ordinary course of business by a Debtor (and not past due), or (iii) Administrative Expense Claims that have already been allowed on or before the Effective Date, is sixty (60) days after the Effective Date (the "Administrative Claim Bar Date"). All such Administrative Expense Claims must be filed with the Bankruptcy Court and served on the Debtors or the Reorganized Debtors, as applicable, and the Office of the United States Trustee, on or prior to the Administrative Claim Bar Date. Such notice must include at a minimum (A) the name of the Debtor(s) which are purported to be liable for the Claim, (B) the name of the holder of the Claim, (C) the amount of the Claim, and (D) the basis of the Claim.

4. Debtors' Procedures for Objecting to Proofs of Claims and Administrative Expense Claims and Notifying Claimants of Objection

On July 21, 2009, the Bankruptcy Court entered an Order Approving Procedures for Objecting to Proofs of Claim and for Notifying the Claimants of Such Objections. This Order authorizes the Debtors to object on an omnibus basis to proofs of claims comprised of: (i) duplicate and duplicate guarantee claims, (ii) amended and superseded claims, (iii) late-filed claims, (iv) claims inconsistent with the Debtors' books and records, (v) equity interest claims, (vi) claims under which the Debtors are not liable, (vii) claims that do not include sufficient information, (viii) misclassified claims, (ix) claims that have been satisfied, (x) claims that have been wrongfully filed in this case, (xi) claims that exceed the maximum amount under section 507 of the Bankruptcy Code and (xii) claims that objectionable pursuant to section 502(e)(1) of the Bankruptcy Code.

Pursuant to the Plan, unless extended by the Bankruptcy Court, the Debtors (upon certain notice to the Plan Sponsor as described in more detail in Section VI(C)(2)) and the Reorganized Debtors, as applicable, will have until one hundred and fifty (150) days after the Effective Date to object to prepetition general unsecured claims and approximately thirty (30) days after the Administrative Claim Bar Date to object to those Administrative Expense Claims that are subject to the Administrative Claim Bar Date.

Although the Debtors have already filed some omnibus claims objections, the Debtors are still conducting a comprehensive review and reconciliation of the claims filed against them, which includes identifying particular categories of proofs of claim that the Debtors should target for disallowance and expungement, reduction and allowance, or reclassification and allowance, and anticipate filing additional omnibus claims objections.

#### **L. Establishment of Alternative Dispute Resolution Process**

In the course of conducting their businesses, the Debtors have become exposed to potential liability for claims relating to bodily injury or death arising from events that occurred prior to the Commencement Date (the “PI Claims”). These PI Claims have arisen primarily from traffic accidents involving trucks owned and driven by Debtors’ employees, Texas work-related injuries, and products produced and sold by the Debtors. The Debtors estimate that prior to the Commencement Date approximately 200 lawsuits or other proceedings have been commenced against the Debtors and/or their employees and insurers related to such PI Claims. Additionally, the Debtors estimate that there may be more than 700 other PI Claims with respect to which no litigation, lawsuit or other proceedings have yet been commenced.

In order to streamline the process of resolving the PI Claims and to avoid piecemeal litigation by holders of PI Claims who have sought or will seek to lift the automatic stay, on April 9, 2009 the Bankruptcy Court approved certain alternative dispute resolution procedures that were proposed by the Debtors for attempting to resolve the PI Claims. The alternative dispute resolution procedures (the “ADR Procedures”) provide that, before obtaining relief from the automatic stay imposed by section 362 of the Bankruptcy Code, to pursue a PI Claim in a non-bankruptcy forum, each claimant (with certain exceptions) must in good faith participate with the Debtors in an offer exchange and mediation process. Any settlement that is reached through the offer exchange or mediation process, or any judgment that is awarded after the automatic stay is lifted, is granted an allowed general unsecured claim in the Chapter 11 Cases (to the extent not covered by Debtors’ insurance) to be paid pursuant to the terms of the Plan.

As of September 4, 2009, 63 PI Claims have been resolved pursuant to the ADR Procedures. The ADR Procedures will continue to apply after the Effective Date to any PI Claim not yet resolved.

#### **M. Significant Material Litigation**

##### **1. Donning and Doffing Litigation**

As of the Commencement Date, the Debtors were defendants in two collective actions brought by employees or former employees for unpaid wages, unpaid overtime wages, liquidated damages, costs and attorneys’ fees, based on time spent donning uniforms and protective gear and then doffing such. Those actions are *Randolph Benbow et al v. Gold Kist*, pending in the United States District Court for the District of South Carolina (the “Benbow Action”) and *MDL 1832 Pilgrim’s Pride Fair Labor Standards Act Litigation*, pending in the United States District Court for the Western District of Arkansas (the “MDL Action”). Post-petition, another similar suit was filed as an Adversary Proceeding in the Bankruptcy Court, entitled *Anna Atkinson, et al. v. Pilgrim’s Pride Corporation, Gold Kist, Inc.* (the “Atkinson Action”). Collectively, these three actions include approximately 17,000 employees. Class proofs of claim were filed on behalf of the plaintiffs in the MDL Action for “at least \$45 million” and for the plaintiffs in the Benbow Action for “at least \$11 million.” PPC denies liability to the Plaintiffs under various theories, including without limitation, that the plaintiffs spend only a de minimus amount of time each day donning and doffing protective gear. PPC and the plaintiffs have agreed to the entry of an order providing for an estimation of the donning and doffing claims in these three cases and

related proofs of claim filed by employees or former employees who are not parties to these actions are to be estimated prior to confirmation of the Plan.

In addition, the Department of Labor (the “DOL”) had pending at the Commencement Date a suit seeking approximately \$6.1 million for workers in PPC’s Dallas plant for time spent donning and doffing. This case involves approximately 500 employees and former employees and seeks essentially the same types of damages as are sought in the Benbow Action and the MDL Action. The DOL is also seeking injunctive relief to require PPC to pay for donning and doffing time in all of PPC’s U.S. plants. PPC denies any liability to the DOL.

## 2. Securities Litigation

On October 29, 2008, Ronald Acaldo filed a purported class action suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against PPC and individual defendants Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler (the “Acaldo Case”). The complaint alleged that PPC and the individual defendants violated §§10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The complaint sought unspecified injunctive relief and an unspecified amount of damages.

On November 13, 2008, Chad Howes filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against PPC and individual defendants Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler (the “Howes Case”). The allegations in the Howes Case complaint are identical to those in the Acaldo Case complaint, as are the class allegations and relief sought. The defendants were never served with the Howes Case complaint.

On December 29, 2008, the Pennsylvania Public Fund Group filed a Motion to Consolidate the Howes Case into the Acaldo Case, and filed a Motion to be Appointed Lead Plaintiff and for Approval of Lead Plaintiff’s Selection of Lead Counsel and Liaison Counsel. Also on that date, the Pilgrim’s Investor Group (in which Mr. Acaldo is a part) filed a Motion to Consolidate the Howes Case into the Acaldo Case and a Motion to be Appointed Lead Plaintiff. The Pilgrim’s Investor Group subsequently filed a Notice of Non-Opposition to the Pennsylvania Public Fund Group’s Motion for Appointment of Lead Plaintiff. Mr. Howes did not seek to be appointed lead plaintiff.

On May 14, 2009, the court consolidated the Acaldo Case and the Howes Case and renamed the style of the case, “*In re: Pilgrim’s Pride Corporation Securities Litigation.*” On May 21, 2009, the court granted the Pennsylvania Public Fund Group’s Motion for Appointment of Lead Plaintiff. Thereafter, on June 26, 2009, lead plaintiff filed a consolidated (and amended) complaint. The consolidated complaint dismissed PPC and Clifford E. Butler as defendants. In addition, the consolidated complaint added the following directors as defendants: Charles L. Black, S. Key Coker, Blake D. Lovette, Vance C. Miller, James G. Vetter, Jr., Donald L. Wass, Linda Chavez, and Keith W. Hughes. The directors are indemnified by PPC and have insurance to offset the defense costs and damages, which coverage is being provided by the carriers under a reservation of rights by the insurance carriers.

The consolidated complaint alleges four causes of action: violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, solely against Lonnie “Bo” Pilgrim, Clint Rivers, and Richard A. Cogdill (referred as the “Officer Defendants”). Those claims assert that, during the Class Period of May 5, 2008 through October 28, 2008, the defendants, through various financial statements, press releases and conference calls, made material misstatements of fact and/or omitted to disclose material facts by purportedly failing to completely impair the goodwill associated with the Gold Kist acquisition. The consolidated complaint also asserts claims under Section 11 of the Securities Act of 1933, as amended, against all defendants,

asserting that, statements made in the registration statement relating to the May 14, 2008 secondary offering of PPC common stock were materially false and misleading for their failure to completely impair the goodwill associated with the Gold Kist acquisition. Finally, the consolidated complaint asserts a violation of Section 15 of the Securities Act of 1933, as amended, against the Officer Defendants only, claiming that the Officer Defendants were controlling persons of PPC and the other defendants in connection with the Section 11 violation. By the consolidated complaint, the lead plaintiff seeks certification of the class, undisclosed damages, and costs and attorneys' fees.

On July 27, 2009, defendants filed a motion to dismiss the consolidated class action complaint. That motion is still pending.

### 3. Grower Litigation

On July 1, 2002, three individuals, on behalf of themselves and a putative class of chicken growers, filed their original class action complaint against PPC in the United States District Court for the Eastern District of Texas, Texarkana Division, styled *Cody Wheeler, et al. v. Pilgrim's Pride Corporation*. In their lawsuit, the plaintiffs initially alleged (a) that PPC violated sections 192(a)-(b) of the Packers and Stockyards Act of 1921 (the "PSA") and breached grower contracts, and (b) various other extra-contractual and tort causes of action. The plaintiffs also brought individual actions for breach of contract, breach of fiduciary duties, and violations of the PSA. During the litigation, the district court dismissed certain claims and plaintiffs abandoned their class claims. However, on September 30, 2005, plaintiffs amended their lawsuit to join several entities owned and/or operated by Tyson Foods, Inc. as co-defendants alleging that the Tyson Foods, Inc. entities and PPC conspired to depress grower pay in certain areas of Texas and Arkansas in violation of the Sherman Antitrust Act (1890). Plaintiffs also sought to certify a class based on the new the Sherman Antitrust Act (1890) claim. Thereafter, the district court bifurcated the lawsuit into two separate cases, an antitrust case that includes the Tyson entities and the original PSA case. Later, the Court denied plaintiffs request to certify a class action based on the Sherman Antitrust Act (1890) claim. The plaintiffs' PSA case is pending before the United States Fifth Circuit Court of Appeals based on a certified legal issue as to whether plaintiffs must prove an anticompetitive effect in order to prevail under their PSA claims. PPC expresses no opinion as to the likelihood of an unfavorable outcome. PPC denies liability in both cases.

On the Bar Date, an adversary proceeding was filed on behalf of 555 claimants, predominantly growers or former growers, seeking, in general, unspecified damages under the PSA, the Texas Deceptive Trade Practices Act (the "DTPA"), common law fraud and fraudulent non-disclosure, promissory estoppel, and intentional infliction of emotional distress. This action is entitled *Adams, et al. v. Pilgrim's Pride Corporation*. In response to the adversary proceeding, which had the reference withdrawn from the bankruptcy court to the federal district court, PPC filed a motion to dismiss. The motion to dismiss was granted in part, dismissing all the plaintiffs' claims except for claims brought under the PSA and claims brought by Texas growers under the DTPA, subject to the plaintiffs' right to file a motion for leave to file an amended complaint. PPC denies liability and expresses no opinion as to the likelihood of an unfavorable outcome.

Prior to the Commencement Date, a lawsuit was also filed by Ricky Arnold and others against PPC and two of its employees, Danny Boone and Jamie Statler, in the Circuit Court of Van Buren County, Arkansas. The case is styled *Ricky Arnold, et al. v Pilgrim's Pride Corporation, et al.* (the "Arnold Suit"). The plaintiffs in the Arnold Suit include independent contract broiler growers from 74 separate poultry farms. In the Arnold Suit, the plaintiffs allege that PPC and its employees made various false representations to induce the plaintiffs into building poultry farms and entering into poultry growing agreements with PPC. The plaintiffs allege that they discovered the representations were false when PPC idled its Clinton, Arkansas processing plant on or around August 11, 2008. The plaintiffs assert claims

for: (a) fraud and deceit; (b) promissory estoppel; and (c) violations of the Arkansas Livestock and Poultry Contract Protection Act. The damages (if any) are not liquidated. PPC denies any liability to the Arnold plaintiffs and expresses no opinion as to the likelihood of an unfavorable outcome.

#### 4. ERISA Litigation

*In re Pilgrim's Pride Stock Investment Plan ERISA Litigation*, No. 2:08-cv-472-TJW, is pending in the United States District Court for the Eastern District of Texas, Marshall Division, against defendants Lonnie "Bo" Pilgrim, Lonnie "Ken" Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, the Compensation Committee, PPC's board of directors and other unnamed defendants.

This case is the consolidation of two putative class actions filed by Kenneth Patterson and Denise Smalls, respectively, pursuant to section 502 of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1132 (the "Patterson Case"). During the Chapter 11 Cases, the Debtors sought to extend the bankruptcy stay to the Patterson Case. The Debtors' motion was denied by the Bankruptcy Court without prejudice.

Plaintiffs allege generally that the individual defendants breached fiduciary duties of prudence and loyalty owed to participants and beneficiaries of the PPC Retirement Savings Plan and the To-Ricos, Inc. Employee Savings and Retirement Plan (together, the "Savings Plan") due to the Savings Plan's allegedly imprudent investment in the PPC common stock, and the defendants' alleged failure to provide accurate information to participants and beneficiaries.

An amended complaint is due to be filed by plaintiffs on September 25, 2009. It is anticipated that plaintiffs will seek certification of a class of all persons or entities who were participants in or beneficiaries of the Savings Plan at any time between May 5, 2008 through the present and whose accounts held PPC common stock or units in PPC common stock, and will seek actual damages in the amount of any losses the Savings Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees, an order for equitable restitution and the imposition of constructive trust, and a declaration that each of the defendants have breached their fiduciary duties to the Savings Plan participants. The court has ordered discovery to proceed on expert and non-expert issues. The parties have commenced discovery. The court has also ordered briefing on class certification, with a hearing to be held on March 30, 2010.

The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Debtors cannot be determined at this time. PPC has a liability insurance policy in place that is potentially available to offset the defense costs and damages in both of the ERISA suits, which coverage is being provided under a reservation of rights.

#### 5. Environmental Litigation

Drexel Chemical Company ("Drexel") has filed suit in the United States District Court for the Middle District of Georgia, seeking to recover remediation costs in connection with a plant Drexel purchased from Gold Kist. Drexel filed a proof of claim in the amount of \$1.9 million plus any remediation costs incurred during the Chapter 11 Cases. PPC denies liability to Drexel.

#### 6. City of Clinton, Arkansas

The City of Clinton, Arkansas (the "City") filed an adversary proceeding against PPC on June 1, 2009 seeking to establish a claim pursuant to the PSA, fraud and fraudulent non-disclosure, and

for promissory estoppel related to the idling of PPC's Clinton, Arkansas plant. The City is seeking approximately \$28 million in damages relating to construction of and/or improvements to a wastewater facility to purify water discharged from the PPC's processing plant. This action is entitled *The City of Clinton v. Pilgrim's Pride Corporation*. In response to the adversary proceeding, which had the reference withdrawn from the bankruptcy court to the federal district court, PPC filed a motion to dismiss, which was granted by the federal district court on September 15, 2009. The City has until September 30, 2009 to file a motion for leave to file an amended complaint. Unless such a motion is filed and granted, the dismissal will be with prejudice. PPC denies any liability to the City and expresses no opinion as to the likelihood of an unfavorable outcome.

#### **N. Rejection and Assumption of Contracts**

During the Chapter 11 Cases, the Debtors exercised their right under section 365 of the Bankruptcy Code to reject or assume certain executory contracts and unexpired leases of the Debtors. Notably, as a result of the idling of several facilities discussed above, the Debtors no longer needed the services of certain chicken growers and rejected those contracts. With respect to rejection of certain grower contracts in Live Oak, Fla, the Debtors and such growers were engaged in extensive litigation before the Bankruptcy Court on the merit of rejection of such growers' contracts. On April 30, 2009, the Bankruptcy Court entered the first of the orders authorizing rejection of grower contracts.

#### **O. PBGC Matters**

The Debtors are contributing sponsors or members of a contributing sponsor's controlled group, as defined in 29 U.S.C. § 1301(a)(14), with respect to three defined benefit pension plans, which are single employer plans covered by Title IV of ERISA. Under ERISA, the contributing sponsor of a pension plan covered by Title IV of ERISA and each member of its "controlled group" are jointly and severally liable for certain obligations relating to such plan. The Pension Benefit Guaranty Corporation ("PBGC") is a wholly owned United States Government corporation which administers the federal pension insurance programs under Title IV. PBGC has filed estimated proofs of claim against the Debtors for unfunded benefit liabilities (in the aggregate amount of approximately \$100,152,000), statutorily required and unpaid minimum funding contributions and past due and future insurance premiums to PBGC, which, in part, are contingent upon termination of such single employer plans. The reorganized Debtors will assume, and the Plan specifically provides for the assumption of, all single employer plans of the Debtors and their controlled group covered by Title IV of ERISA. Nothing in the Plan, this Disclosure Statement, any Order Confirming the Plan, or section 1141 of the Bankruptcy Code, is to be construed as discharging, releasing, or relieving any person or entity (other than the Debtors) from any liability with respect to such single employer plans by reason of a breach of any of Sections 404 through 409 of ERISA, if any. The Debtors, PBGC and the Pension Plans will not be enjoined or precluded from enforcing such liability against any person or entity as a result of the Plan of Reorganization's provisions for satisfaction, release, and discharge of claims.

## V.

### STOCK PURCHASE AGREEMENT<sup>2</sup>

#### A. Purchase of New PPC Common Stock

The Plan is premised on a transaction with the Plan Sponsor whereby the Plan Sponsor will purchase 64% of the New PPC Common Stock on the Effective Date in exchange for \$800 million in Cash, to be used by the Reorganized Debtors to, among other things, fund distributions to holders of Allowed Claims (the “Plan Sponsor Transaction”). The terms of the Plan Sponsor Transaction are set forth in the Stock Purchase Agreement (the “SPA”), which is attached to the Plan as Exhibit B. The salient terms of the SPA are as follows, which summary is qualified in its entirety by the SPA.<sup>3</sup>

- Upon the Effective Date, stockholders of PPC will become entitled to receive, for each share of PPC Stock held by them (other than treasury shares and unvested restricted shares), one share of New PPC Common Stock. The former PPC stockholders will collectively own an aggregate of 36% of the New PPC Common Stock.
- Until the Effective Date, subject to certain exceptions, PPC must conduct its business in a reasonable manner consistent with past practice and must obtain the consent of the Plan Sponsor for certain enumerated actions.
- PPC and the Plan Sponsor will work together to determine the contracts to be assumed by the Reorganized Debtors on the Effective Date and to resolve objections, if any, to certain cure amounts for assumed contracts.
- For a period of six years after the Effective Date, Reorganized PPC will indemnify the present and former directors and officers of PPC and its subsidiaries from all liabilities arising in connection with their service as directors and officers.
- The Plan Sponsor will, or will cause Reorganized PPC, after the Effective Date to honor certain severance, change in control and other employment agreements.
- PPC and the Plan Sponsor will work together to obtain all authorizations, consents and approvals of governmental authorities, including under antitrust laws, necessary to consummate the Plan Sponsor Transaction.
- Prior to the entry of the Plan Sponsor Order (as defined below), PPC may not solicit alternative transaction proposals from third parties but may provide information to and engage in discussions with third parties and take certain other actions with respect to any such unsolicited proposals that PPC’s board of directors determines are reasonably likely to result in a Superior Proposal (as defined in the SPA). If,

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<sup>2</sup> The information contained in this Article V regarding JBS (as defined below), its operations, its financials, and the synergies to be created by the Plan Sponsor Transaction have been generated by, and are the views of, the Plan Sponsor and have not been independently verified by the Debtors or their advisors.

<sup>3</sup> The description of the SPA herein is for summary purposes only and in case of any conflict between the SPA and this Disclosure Statement, the SPA will govern.

prior to the entry of the Plan Sponsor Order, PPC decides to enter into negotiations or approve signing an agreement with a third party with respect to an alternative transaction, it must notify the Plan Sponsor and give the Plan Sponsor the opportunity to match the third party offer.

- The SPA contains certain conditions to each of PPC's and the Plan Sponsor's obligations to consummate the Plan Sponsor Transaction, which include (i) the absence of a breach of the representations, warranties and covenants contained in the SPA, which, in the case of PPC, would or would be reasonably expected to cause a Material Adverse Effect (without giving effect to any exception relating to materiality or a Material Adverse Effect (as defined in the SPA)), or in the case of the Plan Sponsor, would be a material breach, (ii) entry of a Confirmation Order approving the Plan Sponsor Transaction, (iii) expiration or termination of waiting periods for antitrust laws or satisfaction of any related requirements, (iv) absence of an enacted order or law prohibiting the consummation of the Plan Sponsor Transaction, and (v) absence of a threatened order or law prohibiting the consummation of the Plan Sponsor Transaction that is reasonably likely to cause a Material Adverse Effect. In addition to the conditions specified above, the conditions to the obligations of the Plan Sponsor to consummate the Plan Sponsor Transaction include (i) absence of a Material Adverse Effect and (ii) the satisfaction or waiver of the conditions precedent in respect of a credit facility among Reorganized PPC and certain of its Subsidiaries, as borrowers, for a commitment of not less than \$1,650 million and Reorganized PPC's access to funding thereunder.
- The SPA may be terminated prior to the Effective Date upon the following events: (i) by either party if the other party has breached and is unable to cure certain of its representations, warranties and covenants contained in the SPA, (ii) by the Plan Sponsor if certain milestones are not met with respect to the filing of the Plan and Disclosure Statement with the Bankruptcy Court or the entry of the Plan Sponsor Order, (iii) by either party if certain milestones are not met with respect to the entry of the Disclosure Statement Order or the Confirmation Order, (iv) by either party if the Plan Sponsor Transaction is not consummated prior to March 31, 2010 (or May 1, 2010 if the parties are awaiting antitrust approvals), (v) by the Company, if it determines to enter into an agreement with respect to a Superior Proposal, (vi) by either party upon the issuance of an order prohibiting the consummation of the Plan Sponsor Transaction or (vii) by mutual written consent of the parties.
- If PPC terminates the SPA due to its receipt of a Superior Proposal, then PPC will be required to pay a \$45 million termination fee to the Plan Sponsor along with an additional \$5 million as reimbursement of expenses (the "Termination Fee").

On September 17, 2009, the Debtors filed a motion with the Bankruptcy Court seeking entry of an order (the "Plan Sponsor Order") approving certain provisions of the SPA, including, among other things, the Termination Fee. The Bankruptcy Court is expected to hear the motion on October 20, 2009. The Debtors will seek the Bankruptcy Court's authorization and approval with respect to the consummation of the Plan Sponsor Transactions contemplated by the SPA in connection with the confirmation of the Plan.



## **B. The Plan Sponsor**

### **1. General Background**

JBS USA Holdings, Inc. (“JBS USA”), the Plan Sponsor, is a wholly-owned direct subsidiary of JBS Hungary Holdings Kft. (“JBS Hungary”), and a wholly-owned indirect subsidiary of JBS S.A. (“JBS Brazil”, and together with JBS USA and JBS Hungary, “JBS”), a Brazilian-based meat producer with operations across two major business segments: beef and pork. In terms of slaughtering capacity, JBS USA is among the leading beef and pork processors in the U.S. and has been the number one processor of beef in Australia for the past 15 years. As a standalone company, JBS USA would be the largest beef processor in the world. JBS USA also owns and operates the largest feedlot business in the U.S.

JBS USA processes, prepares, packages and delivers fresh, processed and value-added beef and pork products for sale to customers in over 60 countries on six continents. Its operations consist of supplying fresh meat products, processed meat products and value-added meat products. Fresh meat products include refrigerated beef and pork processed to standard industry specifications and sold primarily in boxed form. JBS USA’s processed meat offerings, which include beef and pork products, are cut, ground and packaged in a customized manner for specific orders. Additionally, JBS USA processes lamb and mutton products. JBS USA’s value-added products include moisture-enhanced, seasoned, marinated and consumer ready products. JBS USA also provides services to its customers designed to help them develop more comprehensive and profitable sales programs. JBS USA customers are in the food service, international, further processor and retail distribution channels. JBS USA also produces and sells by-products that are derived from its meat processing operations, such as hides and variety meats, to customers in the clothing, pet food and automotive industries, among others.

JBS Brazil has been listed on the São Paulo Stock Exchange since 2007. As of August 25, 2009, it had a total market capitalization of approximately \$3.7 billion. In the fiscal quarter ended March 29, 2009, JBS USA represented approximately 78% of JBS Brazil’s gross revenues. In July, 2009, JBS USA filed a Form S-1 (the “Registration Statement”) with the SEC to initiate an initial public offering (the “Offering”) of its common stock. More information regarding JBS USA can be found in the Registration Statement, which is attached hereto as Exhibit E<sup>4</sup>. More information regarding JBS Brazil, including its public filings, can be found on its website, [www.jbs.com.br/ir](http://www.jbs.com.br/ir).

### **2. Business Segments**

#### **(a) Beef**

JBS USA has a slaughtering capacity of 37,290 heads per day in beef. The beef segment is comprised of JBS USA’s domestic and international beef processing business, including the beef operations that it gained through its successful acquisitions of Smithfield Beef Group, Inc. and Tasman Group Service, Pty. Ltd. in 2008, and its Australian lamb and mutton plant. JBS’s beef segment is primarily operated in the U.S. and Australia by JBS USA and its subsidiaries. The majority of revenue from the beef segment is generated from United States and Australian sales of fresh meat including chuck cuts, loin cuts, round cuts, thin meats, ground beef, as well as value-added beef items and other products. In addition, JBS USA sells beef by-products to the variety meat, feed processing, fertilizer, automotive, clothing and pet food industries.

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<sup>4</sup> The information provided in the Registration Statement is current as of July 22, 2009 and may have changed since that time.

(b) Pork

JBS USA is the third largest pork producer in the United States, with a slaughtering capacity of 48,500 heads per day. The pork segment includes JBS USA's domestic pork, lamb and sheep processing businesses. The pork segment is operated in the U.S. The majority of revenue from the pork segment is generated from the sale of fresh pork products including loins, roasts, chops, butts, picnics, and ribs, as well as hams, bellies and trimmings. In addition, the pork segment includes the sale of lamb products which account for less than 1% of JBS' total net sales.

3. Plants

JBS USA and its affiliates currently own and operate:

- eight beef processing plants in Colorado, Utah, Texas, Nebraska, Wisconsin, Pennsylvania, Michigan, and Arizona;
- three pork processing plants in Minnesota, Iowa, and Kentucky;
- one case-ready beef plant in California;
- one lamb plant in Colorado;
- one Wet Blue leather producing plant in Texas;
- two beef jerky plants located in Minnesota and Texas;
- one transportation center headquartered in Greeley, Colorado, with satellites in Utah and Texas;
- eleven feedlots located in Idaho, Kansas, Texas, Oklahoma, Colorado, Wisconsin, and Ohio;
- nine beef processing plants located in the Australian provinces of Queensland, New South Wales, Victoria, and Tasmania;
- four lamb and mutton plants located in the Australian provinces of New South Wales, Victoria, and Tasmania; and
- five feedlots located in the Australian provinces of Queensland and New South Wales.

4. Financial Performance

JBS USA had consolidated net sales of \$15.4 billion on a pro forma basis in the fiscal year ended December 28, 2008. JBS USA's consolidated net sales for the fiscal quarter ended March 29, 2009 were \$3.2 billion. In the same periods, JBS USA had gross profit of \$608 million on a pro forma basis and \$73 million, respectively, and adjusted EBITDA of \$531.8 million on a pro forma basis and \$66.1 million, respectively. JBS USA's net income for the fiscal year ended December 28, 2008 was \$192.1 million on a pro forma basis and \$2.3 million for the fiscal quarter ended March 29, 2009. JBS USA's beef and pork segments represented 84% and 16%, respectively, of the consolidated net sales during both the fiscal year ended December 28, 2008 and the fiscal quarter ended March 29, 2009. More

information regarding JBS USA's financial performance including the definition of adjusted EBITDA, can be found in the Registration Statement, which is attached hereto as Exhibit E.

### **C. Anticipated Initial Public Offering**

Under the Offering, JBS USA would be the issuer and JBS Hungary would be the selling stockholder of shares of JBS USA common stock (the "JBS USA Common Stock") offered internationally in the United States and other countries outside Brazil, with a concurrent offering in the form of Brazilian depository receipts ("BDRs") in Brazil. JBS USA will not receive any of the proceeds from the shares of common stock sold by JBS Hungary. JBS USA expects to apply for listing of its common stock on the New York Stock Exchange ("NYSE") under the symbol "JBS." JBS USA will also apply to list the BDRs on the São Paulo Stock Exchange. Neither the SEC nor any state securities commission has approved or disapproved these securities or passed on the adequacy or accuracy of the related prospectus. The Offering is currently postponed pending JBS USA's acquisition of the New PPC Common Stock.

JBS Hungary is currently the sole record holder of JBS USA common stock. The holders of JBS USA's common stock are entitled to one vote for each outstanding share of common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. Stockholders are not entitled to vote cumulatively for the election of directors. Subject to the dividend rights of the holders of any outstanding series of preferred stock, holders of JBS USA's common stock are entitled to receive ratably such dividends and other distributions of cash or any other right or property as may be declared by its board of directors out of its assets or funds legally available for such dividends or distributions.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of JBS USA's affairs, holders of its common stock are entitled to share ratably in its assets that are legally available for distribution to stockholders after payment of liabilities. If JBS USA has any preferred stock outstanding at such time, holders of the preferred stock may be entitled to distribution and/or liquidation preferences. In either such case, JBS USA must pay the applicable distribution to the holders of its preferred stock before it may pay distributions to the holders of its common stock.

JBS USA's amended and restated certificate of incorporation will authorize its board of directors, subject to limitations prescribed by law, to issue a certain number of shares of undesignated preferred stock in one or more series without further stockholder approval. The board will have discretion to determine the rights, preferences, privileges and restrictions of, including, without limitation, voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of, and to fix the number of shares of, each series of its preferred stock.

Upon the completion of the Offering, JBS USA will be subject to Section 203 of the Delaware General Corporation Law ("Section 203"). In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- prior to that date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for

purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by excluding employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to that date, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66  $\frac{2}{3}$ % of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines an “interested stockholder” as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. Section 203 defines “business combination” to include: (1) any merger or consolidation involving the corporation and the interested stockholder; (2) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder; (3) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (4) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (5) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

A Delaware corporation may opt out of Section 203 either by an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. JBS USA has not opted out, and does not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change of control attempts and, accordingly, may discourage attempts to acquire JBS USA.

Additionally, JBS USA’s amended and restated certificate of incorporation and amended and restated bylaws will, upon the closing of the Offering, contain some provisions that may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might deem to be in the stockholder’s best interest. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of JBS USA’s common stock. These provisions include:

- JBS USA will have a classified board of directors. Accordingly, it will take at least two annual meetings of stockholders to elect a majority of the board of directors given JBS USA’s classified board. As a result, it may discourage third-party proxy contests, tender offers or attempts to obtain control of JBS USA.
- JBS USA’s amended and restated bylaws will provide that, subject to the rights, if any, of holders of preferred stock, directors may be removed only for cause by the affirmative vote of the holders of a majority of the voting power of JBS USA’s outstanding shares of common stock entitled to vote. Furthermore, any vacancy on JBS USA’s board of directors, however occurring, including a vacancy resulting from an increase in the size of its board, may only be filled by the affirmative vote of a majority of JBS USA’s directors then in office, even if less than a quorum.
- JBS USA’s amended and restated certificate of incorporation and amended and restated bylaws will provide that a special meeting of stockholders may be called only by the chairman of the board of directors or pursuant to a resolution adopted by the affirmative

vote of the majority of the total number of directors then in office. Notwithstanding the foregoing, for so long as JBS S.A. or any of its subsidiaries owns at least 50% of JBS USA's outstanding shares of common stock, JBS S.A. or such subsidiary shall have the right to call a special meeting of stockholders.

- In order to effect certain amendments to JBS USA's amended and restated certificate of incorporation, its amended and restated certificate of incorporation will require first the approval of a majority of its board of directors pursuant to a resolution adopted by the directors then in office, in accordance with the amended and restated bylaws, and thereafter the approval by the holders of at least 66  $\frac{2}{3}$ % of its then outstanding shares of common stock. Subject to the provisions of JBS USA's amended and restated certificate of incorporation, its amended and restated bylaws will expressly authorize its board of directors to make, alter or repeal its bylaws without further stockholder action. JBS USA's amended and restated bylaws may also be amended by the holders of 66  $\frac{2}{3}$ % of its then outstanding shares of common stock.
- JBS USA's amended and restated certificate of incorporation and amended and restated bylaws will provide that an action required or permitted to be taken at any annual or special meeting of its stockholders may only be taken at a duly called annual or special meeting of stockholders. This provision prevents stockholders from initiating or effecting any action by written consent, and thereby taking actions opposed by the board. Notwithstanding the foregoing, for so long as JBS S.A. or any of its subsidiaries owns at least 50% of JBS USA's outstanding shares of common stock, JBS USA's stockholders will be permitted to take action by written consent.
- JBS USA's amended and restated bylaws will contain advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors.
- The authorization of undesignated preferred stock will make it possible for JBS USA's board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of the company.

The foregoing provisions of JBS USA's amended and restated certificate of incorporation and its amended and restated bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce JBS USA's vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for JBS USA shares and, as a consequence, they also may inhibit fluctuations in the market price of JBS USA's common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in JBS USA management.

Prior to the Offering, there will not have been any public market for JBS USA's common stock, and JBS USA makes no prediction as to the effect, if any, that market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of its common stock prevailing from time to time. Nevertheless, sales of substantial amounts of common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of

common stock and could impair JBS USA's future ability to raise capital through the sale of equity securities.

#### **D. Other Offerings**

In addition, on April 27, 2009 JBS USA, LLC and JBS USA Finance, Inc. issued \$700.0 million in senior unsecured notes due May 2014 bearing interest at 11.625%, which, after deducting initial purchaser discounts, commissions and expenses in respect of the notes offering, generated net proceeds of approximately \$650.8 million. The notes have semi-annual interest payment dates in May and November, commencing November 2009. The proceeds of the notes issuance were used to pay \$100.0 million under JBS USA, LLC's secured revolving facility and \$550.8 million of outstanding principal and accrued interest on intercompany loans incurred by JBS USA.

#### **E. Conversion of New PPC Common Stock to JBS USA Common Stock**

In the event JBS USA completes the Offering, or any other initial public offering of the JBS USA Common Stock and the offered shares are listed on a national securities exchange, then, at any time during an Exchange Window (as defined below) falling within the period commencing on the date of the closing of the Offering or such other offering and ending two years and 30 days from the Effective Date, JBS USA will have the right to deliver written notice of the mandatory exchange of the New PPC Common Stock (the "Mandatory Exchange Transaction") to Reorganized PPC at its principal place of business. Upon delivery to Reorganized PPC of notice of the Mandatory Exchange Transaction each share of New PPC Common Stock held by stockholders other than JBS USA (the "Exchanged Holders") will automatically, without any further action on behalf of Reorganized PPC or any of the Exchanged Holders, be transferred to JBS USA in exchange for a number of duly authorized, validly issued, fully paid and non-assessable shares of JBS USA Common Stock equal to the Exchange Offer Ratio (as defined below). The Mandatory Exchange Transaction will be effected in compliance with all applicable laws. An "Exchange Window" is a period of time beginning on the 6th trading day after the first day on which both Reorganized PPC and JBS USA will have each made their respective annual or quarterly reports or earnings releases relating to the immediately preceding fiscal quarter or year, as applicable, and ending on the last day of the fiscal quarter during which the first day of the Exchange Window fell.

The Exchange Offer Ratio is a fraction, the numerator of which is the average volume-weighted daily trading price per share on the principal Exchange for the New PPC Common Stock and the denominator of which is the average volume-weighted daily trading price per share on the principal exchange for the JBS USA Common Stock, in each case for the Measurement Period. The "Measurement Period" is a number of consecutive trading days which is equal to twice the number of consecutive trading days between (i) the first date on which both JBS USA and Reorganized PPC shall have both made their respective annual or quarterly reports or earnings releases and (ii) the date on which JBS USA delivers to Reorganized PPC the notice of the Mandatory Exchange Transaction.

JBS USA believes that the potential exchange of New PPC Common Stock for JBS USA Common Stock under the circumstances provided in the Plan and summarized above will satisfy the requirements of section 1145(a) of the Bankruptcy Code. Under the terms of the SPA, the Debtors and the Plan Sponsor have agreed to seek a finding of the Bankruptcy Court in the Confirmation Order that this potential exchange of New PPC Common Stock will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

## **F. Corporate Governance**

JBS USA has adopted a code of conduct applicable to all employees and, in 2002, it adopted a code of ethics specifically applying to its chief executive officer, chief financial officer, chief accounting officer and controller. JBS USA's board is currently comprised of three members. Following a successful completion of the Offering, JBS USA's board will be comprised of seven members, including at least one independent director. In addition, following a successful completion of the Offering, JBS USA's board will have both an audit committee and a compensation committee.

JBS Brazil has adopted a code of ethics which it strives to apply to its business. JBS Brazil's board is comprised of six members: one president, three permanent directors without a specific title and two permanent independent directors. The board must meet at least four times per year.

Upon completion of the Offering, JBS Brazil will own more than 50% of the total voting power of JBS USA's common shares and JBS USA will be a "controlled company" under the NYSE corporate governance standards. As a controlled company, exemptions under the NYSE standards will free JBS USA from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

- that a majority of its board of directors consists of "independent directors" as defined under the rules of the NYSE;
- that it have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that it have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

Accordingly, for so long as JBS USA is a controlled company, holders of its common stock will not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

## **G. Financing**

JBS has represented to PPC that it has sufficient immediately available funds or has access to such funds without any restrictions or conditions on use thereon or access thereto and without the need to incur short term indebtedness to pay, in cash, the Purchase Price (as defined in the Stock Purchase Agreement). As of June 30, 2009, JBS and its affiliates had approximately \$1.2 billion in cash and cash equivalents, and had access to approximately \$560 million under undrawn and committed facilities.

## **H. Synergies Created as a Result of the Plan Sponsor Transaction**

JBS believes that PPC is well-suited to a successful integration with JBS USA's North American operations. JBS believes that such an integration will produce substantial cost-savings for both companies through synergies. JBS believes that potential synergies include streamlining administrative structures and sales networks, consolidating distribution networks, optimizing freight and storage costs,

capturing shared purchasing opportunities, consolidating treasury and risk management systems and implementing best practices throughout the business. In addition, opportunities for revenue enhancement through a combination of the companies include leveraging JBS USA's international sales force to improve PPC's penetration of key export markets, including Russia and Japan. JBS believes that aggregate synergies from cost savings and revenue enhancement opportunities could amount to \$200 million or more per year.

JBS USA's management has substantial experience in acquiring and successfully integrating companies. Since July 2007, JBS USA has acquired:

- Swift Foods Company, a leading beef and pork processor in the United States;
- substantially all of the assets of Tasman Group Services, Pty. Ltd., a major beef and small animals processor in Australia; and
- Smithfield Beef Group, Inc., a major beef processor in the United States.

JBS USA's integration efforts and cost savings initiatives resulted in a 20.7% reduction in annual selling, general and administrative expenses for the fiscal year ended December 28, 2008. In 2008, JBS USA had the lowest ratio of selling, general and administrative expenses to net sales compared to publicly traded protein companies in the U.S.

JBS USA also benefits from the experience of JBS Brazil's management team in acquiring and successfully integrating companies. JBS Brazil has made over thirty acquisitions in the last fifteen years.

## **I. Stockholders Agreement**

On the Effective Date, the Plan Sponsor and Reorganized PPC will enter into a Stockholders Agreement (the "Stockholders Agreement"), which sets forth certain rights with respect to the New PPC Common Stock, corporate governance and other related corporate matters. The Stockholders Agreement is attached to the Stock Purchase Agreement as Exhibit A. The salient terms of the Stockholders Agreement are as follows:<sup>5</sup>

- Until the expiration of the Standstill Period on the date that is two years and 30 days after the Effective Date, the Plan Sponsor and its Affiliates will be prohibited from acquiring, directly or indirectly, any shares of New PPC Common Stock, except (i) by way of stock splits, stock dividends, reclassifications, recapitalizations, or other distributions by Reorganized PPC to all holders of New PPC Common Stock on a pro rata basis, or (ii) pursuant to the Mandatory Exchange Transaction.
- In accordance with the Plan, the Stockholders Agreement provides that the initial Board of Directors of Reorganized PPC will consist of nine directors: (i) six directors designated by the Plan Sponsor (the "JBS Directors"), (ii) two directors designated by the Equity Committee (the "Equity Directors") and (iii) the Founder Director (as defined in the Stockholders Agreement). The Stockholders Agreement contains terms regarding the appointment and removal of directors, the requirement

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<sup>5</sup> The description of the Stockholders Agreement herein is for summary purposes only and in case of any conflict between the Stockholders Agreement and this Disclosure Statement, the Stockholders Agreement will govern.



for certain directors to be “independent” for purposes of applicable SEC rules and exchange listing requirements and the change in the size of the Board of Directors or relative numbers of JBS Directors and Equity Directors in the event that the respective parties’ ownership percentages change or changes in applicable law or exchange listing requirements.

- The Stockholders Agreement requires the approval of at least a majority of the Equity Directors and any Founder Director, as a group, for certain actions, including the amendment or repeal of certain provisions of the Restated Certificate of Incorporation or the Restated Bylaws or amendments that would or could reasonably be expected to adversely affect, in any material respect, the rights of the stockholders other than the Plan Sponsor and its affiliates (the “Minority Investors”).
- The Stockholders Agreement provides that the Plan Sponsor will cause all shares of New PPC Common Stock beneficially owned by it or its Affiliates to (i) be voted in the same proportion as the shares of New PPC Common Stock held by the Minority Investors are voted with respect to (A) the election or removal of Equity Directors and (B) proposals to amend the Bylaws that would adversely affect, or could reasonably be expected to adversely affect, in any material respect, the rights of the Minority Investors, as a class, and (ii) be voted for the election, or against the removal, of the Founding Director until the Founding Director is no longer on the Board of Directors. With respect to all other matters submitted to a vote of holders of New PPC Common Stock, the Plan Sponsor may vote, or abstain from voting, in its sole and absolute discretion.
- The Stockholders Agreement contains certain covenants designed to cause the Mandatory Exchange Transaction to be consummated as a tax-free transaction.
- The Stockholders Agreement permits Reorganized PPC to make repurchases of New PPC Common Stock from Minority Investors if certain conditions are met.
- The Stockholders Agreement requires the Plan Sponsor and Reorganized PPC to use their respective commercially reasonable efforts to maintain the listing of the New PPC Common Stock on a national securities exchange. However, neither the Plan Sponsor and its Affiliates nor Reorganized PPC will be obligated to ensure that the share price or market value of the New PPC Common Stock is sufficient to maintain such listing.
- The Stockholders Agreement may be terminated (i) by written agreement of the parties, (ii) on the consummation of the Mandatory Exchange Transaction or (iii) in the event that the Plan Sponsor owns 100% of the New PPC Common Stock, subject to the survival of certain covenants related to the preservation of tax-free treatment for the Mandatory Exchange Transaction.
- The Equity Directors will have the exclusive authority to exercise Reorganized PPC’s rights under the Stockholders Agreement.

## J. Plan Support Agreement

On September 16, 2009, the Plan Sponsor and Mr. Lonnie A. “Bo” Pilgrim (the “Stockholder”) entered into a Plan Support Agreement (the “PSA”). Under the PSA, the Stockholder agreed, among other things, to:<sup>6</sup>

- support the Plan and the SPA;
- not support any action, agreement or proposal that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of PPC under the SPA that could result in any of the conditions to PPC’s obligations under the SPA not being fulfilled; and
- support any other matter necessary to the consummation of the Transactions (as defined in the PSA).

Nothing in the PSA limits or affects any actions taken by the Stockholder in his capacity as a director or officer of PPC or Reorganized PPC or any of its subsidiaries.

## VI.

### THE CHAPTER 11 PLAN

#### A. Summary and Treatment of Unclassified and Classified Claims and Equity Interests

Unless otherwise indicated, the characteristics and amount of the claims or interests in the following classes are based on the books and records of the Debtors. The estimated amounts of Claims and Equity Interests are calculated as of November 21, 2009, unless otherwise noted.<sup>7</sup>

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>
Unclassified	Administrative Expenses Claims (other than ordinary course claims and those claims set forth below)	Paid in full in Cash	No	\$20,000,000 <sup>9</sup>	100%

<sup>6</sup> The description of the Plan Support Agreement herein is for summary purposes only and in case of any conflict between the Plan Support Agreement and this Disclosure Statement, the Plan Support Agreement will govern.

<sup>7</sup> If the Plan is approved by the Bankruptcy Court, the Debtors anticipate to emerge from chapter 11 by end of December 2009. The Debtors do not expect the estimated amount of Claims and Equity Interests to change between November 21, 2009 and the end of December 2009.

<sup>8</sup> Unless otherwise stated, all payments under the Plan will be made on (a) the later of (i) the Effective Date and (ii) when the applicable Claim or Equity Interest is Allowed, or (b) as otherwise agreed by the Debtors/Reorganized Debtors and the holder of such Claim or Equity Interests.

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>
Unclassified	Professional Compensation and Reimbursement Claims	Paid in Cash, in full at the time specified in the order of the Bankruptcy Court approving final fee applications of professionals	No	Undetermined	100%
Unclassified	Indenture Trustee Fee Claims	Paid in full in Cash	No	De minimus	100%
Unclassified	DIP Claims	Paid in full in Cash	No	\$0	100%
Unclassified	Priority Tax Claims	Either (a) paid in full in Cash on Effective Date, (b) paid in full in Cash semi-annually over a period of up to 5 years, or (c) as otherwise provided by the Bankruptcy Court to provide payment in full	No	\$15,000,000	100%
Class 1(a)	Priority Non-Tax Claims against PPC	Paid in full in Cash	No	\$35,000,000	100%
Class 1(b)	Priority Non-Tax Claims against PFS Distribution Company			De minimus	100%
Class 1(c)	Priority Non-Tax Claims against PPC Transportation Company			De minimus	100%
Class 1(d)	Priority Non-Tax Claims against To-Ricos, Ltd.			De minimus	100%
Class 1(e)	Priority Non-Tax Claims against To-Ricos Distribution, Ltd.			De minimus	100%
Class 1(f)	Priority Non-Tax Claims against Pilgrim's Pride Corporation of West Virginia, Inc.			De minimus	100%
Class 1(g)	Priority Non-Tax Claims against PPC Marketing, Ltd.			De minimus	100%
Class 2(a)	BMO Secured			Paid in full in Cash; letters of	No

<sup>9</sup> Exclusive of ordinary course Administrative Expense Claims.

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>
	Claims against PPC	credit will be cancelled or replacement letters of credit will be issued under the Exit Facility; upon satisfaction of the BMO Secured Claims as set forth in the Plan, the obligations set forth in the BMO Guarantee Agreement will be cancelled		principal plus \$5,000,000 in accrued and default interest on loans and \$39,000,000 in letters of credit	100%
Class 2(b)	BMO Secured Claims against To-Ricos, Ltd.				
Class 2(c)	BMO Secured Claims against To-Ricos Distribution, Ltd.				
Class 3	CoBank Secured Claims against PPC	Either (i) paid in full in Cash in an amount equal to such Allowed CoBank Secured Claim, (ii) reinstated pursuant to amended terms and conditions to be negotiated, or (iii) reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code. Accrued and unpaid postpetition interest on account of Allowed CoBank Secured Claims will be (i) paid either Cash in an amount equal to such accrued and unpaid postpetition default interest, or (ii) satisfied on such other terms as may be negotiated between Reorganized PPC and CoBank.	No	\$1,126,000,000 in principal plus \$29,000,000 in accrued and default interest	100%
Class 4(a)	Secured Tax Claims against PPC	Either (a) paid in full in Cash on Effective Date, (b) paid in full in Cash semi-annually over a period of up to 5 years, or (c) as otherwise provided by the Bankruptcy Court to provide payment in full	No	(included in total for priority tax above)	100%
Class 4(b)	Secured Tax Claims against PFS Distribution Company			(included in total for priority tax above)	100%
Class 4(c)	Secured Tax Claims against PPC Transportation Company			(included in total for priority tax above)	100%
Class 4(d)	Secured Tax Claims against To-Ricos, Ltd.			(included in total for priority tax above)	100%
Class 4(e)	Secured Tax Claims against To-Ricos Distribution, Ltd.			(included in total for priority tax above)	100%
Class 4(f)	Secured Tax Claims against			(included in total for priority tax	100%

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>	
	Pilgrim's Pride Corporation of West Virginia, Inc.			above)		
Class 4(g)	Secured Tax Claims against PPC Marketing, Ltd.			(included in total for priority tax above)	100%	
Class 5(a)	Other Secured Claims	Will (i) be reinstated, (ii) receive Cash in full plus interest required by section 506(b) of the Bankruptcy Code, (iii) receive proceeds of the sale of collateral to the extent of the value of the holder's secured interest in the collateral, (iv) receive the collateral plus any interest required under 506(b), or (v) receive such other distributions as necessary to satisfy section 1124 of the Bankruptcy Code	No	\$27,000,000 in the aggregate for all Debtors	100%	
Class 5(b)	Other Secured Claims against PFS Distribution Company				100%	
Class 5(c)	Other Secured Claims against PPC Transportation Company				100%	
Class 5(d)	Other Secured Claims against To-Ricos, Ltd.				100%	
Class 5(e)	Other Secured Claims against To-Ricos Distribution, Ltd.				100%	
Class 5(f)	Other Secured Claims against Pilgrim's Pride Corporation of West Virginia, Inc.				100%	
Class 5(g)	Other Secured Claims against PPC Marketing, Ltd.				100%	
Class 6(a)	Senior Note Claims against PPC	Paid in full in Cash in an amount equal to (i) the principal amount of such Allowed Note Claim and (ii) accrued and unpaid postpetition interest at the non-default, contract rate	No	\$400,000,000 in principal plus \$48,000,000 in accrued interest	100%	
Class 6(b)	Senior Subordinated Note Claims against PPC				\$250,000,000 in principal plus \$33,000,000 in accrued interest	100%
Class 6(c)	Subordinated Note Claims against PPC				\$7,000,000 in principal plus \$1,000,000 in accrued interest	100%

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>
Class 7(a)	General Unsecured Claims against PPC	Paid in full in Cash with postpetition interest at the federal judgment rate as of the date of entry of the Confirmation Order	No	\$180,000,000	100%
Class 7(b)	General Unsecured Claims against PFS Distribution Company				100%
Class 7(c)	General Unsecured Claims against PPC Transportation Company				100%
Class 7(d)	General Unsecured Claims against To-Ricos, Ltd.				100%
Class 7(e)	General Unsecured Claims against To-Ricos Distribution, Ltd.				100%
Class 7(f)	General Unsecured Claims against Pilgrim's Pride Corporation of West Virginia, Inc.				100%
Class 7(g)	General Unsecured Claims against PPC Marketing, Ltd.				100%
Class 8	Intercompany Claims	Will be reinstated	No	\$38,000,000 <sup>10</sup>	100%
Class 9	Flow Through Claims	Will be satisfied in the ordinary course of business at such time and in such manner as the applicable Reorganized Debtor is obligated to satisfy each Flow-Through Claim (subject to the preservation and flow-through of all Avoidance Actions and defenses with	No	\$77,000,000	100%

<sup>10</sup> As of August 22, 2009.

<u>Class</u>	<u>Description</u>	<u>Treatment</u> <sup>8</sup>	<u>Entitled to Vote</u>	<u>Estimated Amount of Claims or Equity Interests in Class</u>	<u>Estimated Recovery</u>
		respect thereto, which will be fully preserved).			
Class 10(a)	Equity Interests in PPC	All existing PPC Common Stock will be cancelled, and each holder will receive a certain amount of common stock of the Reorganized PPC (which will be subject to the Mandatory Exchange Transaction)	Yes	77,141,389 shares of common stock outstanding <sup>11</sup>	N/A
Class 10(b)	Equity Interests in PFS Distribution Company	Will be reinstated	No	100 shares of common stock outstanding. 100 shares of preferred stock outstanding.	N/A
Class 10(c)	Equity Interests in PPC Transportation Company			100 shares of common stock outstanding. 100 shares of preferred stock outstanding.	N/A
Class 10(d)	Equity Interests in To-Ricos, Ltd.			12,001 shares outstanding	N/A
Class 10(e)	Equity Interests in To-Ricos Distribution, Ltd.			12,000 shares outstanding	N/A
Class 10(f)	Equity Interests in Pilgrim's Pride Corporation of West Virginia, Inc.			1,000 shares outstanding	N/A
Class 10(g)	Equity Interests in PPC Marketing, Ltd.			N/A	N/A

<sup>11</sup> As of December 28, 2009, prior to any additional amounts that will be issued to Mr. Pilgrim upon approval by the Bankruptcy Court of the incentive plan described in Section IV(H) of this Disclosure Statement.

## **B. Description and Treatment of Classified Claims and Equity Interests**

1. Priority Non-Tax Claims against PPC, PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim's Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd. (Classes 1(a)-(g))

The claims in Classes 1(a)-(g) are of the types identified in section 507(a) of the Bankruptcy Code that are entitled to priority in payment (other than Administrative Expense Claims and Priority Tax Claims). For the Debtors, these claims relate primarily to prepetition wages and employee benefit plan contributions to the extent such claims had not yet been paid as of the Commencement Date. Most of these claims have already been paid by the Debtors pursuant to an order entered by the Bankruptcy Court on the Commencement Date. The Debtors estimate that the aggregate allowed amount of the claims in these classes will be \$35 million.

Classes 1(a) through (g) are unimpaired by the Plan. Each holder of an allowed Priority Non-Tax Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an allowed Priority Non-Tax Claim agrees to a less favorable treatment, each such holder will receive, in full satisfaction of such claim, cash in an amount equal to such claim, on or as soon as reasonably practicable after the later of (i) the Effective Date, and (ii) the date such claim becomes allowed.

2. Bank of Montreal Secured Claims Against PPC, To-Ricos and To-Ricos Distribution (Classes 2(a)-(c))

The claims in Class 2(a)-(g) consist of all Secured Claims arising under the BMO Credit Agreement. The BMO Credit Agreement provided for a revolving credit facility in the maximum aggregate amount of \$300 million, including letters of credit. As of November 21, 2009, approximately \$261 million, inclusive of the outstanding letters of credit and accrued interest, is estimated to be outstanding under the BMO Credit Agreement.

Classes 2(a) through 2(c) are unimpaired by the Plan. Each holder of an allowed BMO Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an allowed BMO Secured Claim agrees to a less favorable treatment, each such holder will receive, in full satisfaction of such claim, cash in an amount equal to such claim on the Effective Date. Letters of credit issued by BMO and outstanding as of the Effective Date will be cancelled and returned to the issuing bank with notice to BMO or cash in an amount of 105% of the face amount of the letter of credit will be placed with the letter of credit bank or replacement letters of credit will be issued under the Exit Facility. Upon satisfaction of the BMO Secured Claims as set forth herein, the obligations set forth in the BMO Guarantee Agreement will be cancelled.

3. CoBank Secured Claims against PPC (Class 3)

The claims in Class 3 consists of all secured claims arising under the CoBank Credit Agreement with CoBank as lender, collateral agent, and administrative agent, as lender, the CoBank Lending Group (together with the BMO Lending Group, the ("Prepetition Secured Lenders")). The CoBank Credit Agreement provides for a revolving credit facility of \$550 million and a term loan of \$750



million. As of November 21, 2009, approximately \$1,155 million in principal and accrued interest is estimated to be outstanding under the CoBank Credit Agreement.

Class 3 is unimpaired by the Plan. Each holder of an Allowed CoBank Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an Allowed CoBank Secured Claim agrees to a less favorable treatment, each Allowed CoBank Secured Claim shall be, at the sole option of the Reorganized PPC, (i) satisfied in full in Cash in an amount equal to such Allowed CoBank Secured Claim, on or as soon as reasonably practicable after the later of (a) the Effective Date, and (b) the date such Claim becomes Allowed, (ii) reinstated pursuant to amended terms and conditions to be negotiated, or (iii) reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed CoBank Secured Claim to demand or receive payment of such Claim prior to its stated maturity from and after the occurrence of default. To the extent that any holder of an Allowed CoBank Secured Claim is entitled to accrued and unpaid postpetition interest on account of such Claim, such holder will receive, at the sole option of the Reorganized PPC, either (i) Cash in an amount equal to such accrued and unpaid postpetition default interest, or (ii) satisfaction of such accrued and unpaid postpetition interest on such other terms as may be negotiated between Reorganized PPC and CoBank.

4. Secured Tax Claims against PPC, PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim's Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd. (Classes 4(a)-(g))

The claims in Class 4 are the types of claims which, absent their status as a secured claim, would be entitled to priority in payment under section 507(a)(8) of the Bankruptcy Code. The Debtors estimate that the aggregate amount of claims in this class (inclusive of the tax claims entitled to priority of payment under section 507(a)(8)) is approximately \$15 million. If a secured tax claim accrues interest under applicable local law and the value of the collateral exceeds the amount of the allowed claim, such secured claim will include interest.

Classes 4(a) through (g) are unimpaired by the Plan. Each holder of an Allowed Secured Tax Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an Allowed Secured Tax Claim agrees to a less favorable treatment, each such holder will receive, in full satisfaction of such claim, at the sole option of the Reorganized Debtors, either (a) cash in an amount equal to such allowed Secured Tax Claim, on or as soon as reasonably practicable after the later of (i) the Effective Date, and (ii) the date such Secured Tax Claim becomes an Allowed Secured Tax Claim, (b) equal semi-annual cash payments in an aggregate amount equal to such allowed Secured Tax Claim, together with interest at the applicable non-bankruptcy rate, commencing upon the later of the Effective Date and the date such Secured Tax Claim becomes an Allowed Secured Tax Claim, or as soon thereafter as is practicable and continuing over a period ending no later than five (5) years after the Commencement Date, or (c) such other treatment as will be determined by the Bankruptcy Court to provide the holder of such Allowed Secured Tax Claim deferred cash payments having a value, as of the Effective Date, equal to such Allowed Secured Tax Claim.

5. Other Secured Claims against PPC, PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim's Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd. (Classes 5(a)-(g))

The claims in Classes 5(a)-(g) consist of all Secured Claims other than Secured Tax Claims in Classes 4(a)-(g). Based upon the Debtors' Schedules and the proofs of claim filed in the Chapter 11 Cases, Class 5(a)-(g) claims include those creditors who hold mechanic liens or certain IRBs against the Debtors. The Debtors estimate that the aggregate amount of Other Secured Claims is \$27 million.

Classes 5(a) through (g) are unimpaired by the Plan. Each holder of an allowed Other Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an allowed Other Secured Claim agrees to a less favorable treatment, at the sole option of the relevant Reorganized Debtor, (i) each Allowed Other Secured Claim will be reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such claim prior to the stated maturity of such claim from and after the occurrence of a default, or (ii) each holder of an Allowed Other Secured Claim will receive, in full satisfaction of such Allowed Other Secured Claim, either (a) cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, (b) the proceeds of the sale or disposition of the Collateral securing such Allowed Other Secured Claim to the extent of the value of the holder's interest in such Collateral, (c) the Collateral securing such Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, or (d) such other distribution as necessary to satisfy the requirements of section 1124 of the Bankruptcy Code. In the event the Debtors or Reorganized Debtors elect to treat a Claim under clause (a) or (b) of this Section, the liens securing such Other Secured Claim will be deemed released.

6. Note Claims against PPC (Classes 6(a)-(c))

The claims in Classes 6(a)-(c) are claims arising under the Senior Notes, the Subordinated Notes, and the Senior Subordinated Notes, respectively. The Debtors estimate that the aggregate amount of the Note Claims is \$739 million as of November 21, 2009.

Classes 6(a) through (c) are unimpaired by the Plan. Each holder of an allowed Note Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan

Except to the extent that a holder of an allowed Note Claim agrees to a less favorable treatment, each holder of an Allowed Note Claim will receive Cash in an amount equal to (i) the principal amount of such Allowed Note Claim plus (ii) accrued and unpaid postpetition interest at the non-default, contract rate as soon as reasonably practicable after the later of (a) the Effective Date, and (b) the date the Note Claim becomes allowed.

7. General Unsecured Claims against PPC, PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim's Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd (Classes 7(a)-(g))

The Debtors estimate that, following completion of the claims reconciliation process, the aggregate amount of allowed claims in Classes 7(a)-(g) will be approximately \$180 million, after deducting duplicate claims, claims not supported by the Debtors' books and records, claims that have already been reduced by agreement of the parties or order of the Bankruptcy Court and claims that are subject to other objections. The claims in Classes 7(a)-(g) consist of unsecured claims, including trade claims, claims based on rejection of leases or executory contracts, prepetition personal injury and prepetition litigation, and other general unsecured claims.

Classes 7(a) through (g) are unimpaired by the Plan. Each holder of an Allowed General Unsecured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an Allowed General Unsecured Claim agrees to less favorable treatment, each holder of an Allowed General Unsecured Claim will receive, in full satisfaction of such claim, cash equal to (i) the full amount of such Allowed General Unsecured Claim plus (ii) postpetition interest at the federal judgment rate as of the date of entry of the Confirmation Order as soon as reasonably practicable after the later of (a) the Effective Date, and (b) the date the General Unsecured Claims become allowed.

8. Intercompany Claims (Class 8)

The claims in Class 8 consist of claims that each of the Debtors may have against each other.

Class 8 is not impaired by the Plan. Each holder of an Intercompany Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

Except to the extent that a holder of an Intercompany Claim accepts less favorable treatment, each Intercompany Claim will be reinstated and carried forward for financial reporting and tax purposes, as may be further determined by the Debtors in consultation with the Debtors' auditors and tax accountants.

9. Flow Through Claims against PPC, PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim's Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd (Classes 9(a)-(g))

The claims in Classes 9(a)-(g) consist of (a) claims arising from obligations to Debtors' customers incurred in the ordinary course of business, and (ii) claims of present or former employees, officers or directors of any of the Debtors in his or her capacity as such, (i) for current or future wages, salary, commissions, or benefits, or (ii) with respect to any employment, severance or workers' compensation program that has not been rejected or otherwise terminated under the Plan or pursuant to another order of the Bankruptcy Court.

Classes 9(a) through (g) are unimpaired by the Plan. Each holder of a Flow-Through Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

The legal, equitable, and contractual rights of each holder of a Flow-Through Claim, if any, will be unaltered by the Plan and will be satisfied in the ordinary course of business at such time and in such manner as the applicable Reorganized Debtor is obligated to satisfy each Flow-Through Claim (subject to the preservation and flow-through of all Avoidance Actions and defenses with respect thereto, which will be fully preserved).

10. Equity Interests in PPC (Class 10(a))

Class 10(a) is impaired by the Plan. Each holder of an Allowed Equity Interest in Class 10(a) is entitled to vote to accept or reject the Plan.

On and as of the Effective Date, each share of PPC Common Stock issued and outstanding immediately prior to the Effective Date (other than any shares of PPC Common Stock held in the treasury of the PPC or any subsidiary thereof immediately prior to the Effective Date and each share of restricted stock of PPC as to which any conditions to vesting shall not have lapsed or shall not have been satisfied at or immediately prior to the Effective Date, which will be canceled without any conversion thereof and no distribution will be made with respect thereto) (the “Existing Shares”) will be cancelled and converted automatically into the right to receive, on the Effective Date or as soon as reasonably practical thereafter, a number of fully paid and nonassessable shares of New PPC Common Stock equal to the Share Conversion Factor.

For purposes of the Plan, “Share Conversion Factor” means the number determined by application of the following formula:

SCF	=	$(0.36 \times \text{NNS}) / \text{NES}$
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where:

NNS	=	The number of shares necessary to cause SCF to be 1, or such other number of shares agreed in writing by the parties.  It is currently anticipated that 214,281,636 shares of New PPC Common Stock will be issued on the Effective Date, although the Debtors may revise this number prior to the Effective Date.
NES	=	The total number of Existing Shares
SCF	=	Share Conversion Factor

11. Equity Interests in PFS Distribution Company, PPC Transportation Company, To-Ricos, To-Ricos Distribution, Pilgrim’s Pride Corporation of West Virginia, Inc., and PPC Marketing, Ltd Class 10(b)-(g)

Classes 10(b) through (g) are unimpaired by the Plan. Each holder of an Allowed Equity Interest in Classes 10(b) through (g) is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

The Equity Interests in Classes 10(b) through (g) will be reinstated in their entirety pursuant to the Plan.

### **C. Claim Resolution Process**

#### **1. Allowance of Claims and Equity Interests**

One of the key concepts under the Bankruptcy Code is that only claims and equity interests that are “allowed” may receive distributions under a chapter 11 plan. This term is used throughout the Plan and the descriptions below. In general, an “allowed” claim or “allowed” equity interest simply means that the Debtors agree, or if there is a dispute, that the Bankruptcy Court determines, that the claim or interest, and the amount thereof, is in fact a valid obligation of the Debtors.

Any claim that is not a disputed claim and for which a proof of claim has been filed is an allowed claim. Any claim that has been listed by the Debtors in the Debtors’ Schedules, as may be amended from time to time, as liquidated in amount and not disputed or contingent is an allowed claim in the amount listed in the Schedules unless an objection to such claim has been filed. Any claim that has been listed in the Debtors’ Schedules as disputed, contingent or not liquidated and for which a proof of claim has been filed is a disputed claim. Any claim for which an objection has been timely interposed is a disputed claim. Any Claim that has been listed in the Debtors’ Schedules as disputed, contingent or not liquidated and for which no proof of claim has been filed will be disallowed and discharged on the Effective Date of the Plan.

#### **2. Claim Objections**

Except as otherwise provided with respect to Administrative Expense Claims, an objection to any Claim may be interposed by the Debtors or the Reorganized Debtors within one hundred and fifty (150) days after the Effective Date or such later date as may be fixed by the Bankruptcy Court. Any Claim for which an objection has been interposed will be an Allowed Claim if the objection is determined in favor of the holder of the Claim pursuant to a final order of the Bankruptcy Court or as otherwise agreed to by the parties.

Prior to the Effective Date, except for objections that in the reasonable determination of the Debtors need to be filed on an emergency basis, the Debtors will provide three (3) calendar days prior notice to the Plan Sponsor of their intent to file an objection to Claims and if timely requested by the Plan Sponsor, will work with the Plan Sponsor in interposing such an objection.

#### **3. Resolution of Disputed Claims**

Notwithstanding any prior order of the Bankruptcy Court, on and after the Effective Date, the Reorganized Debtors will have the authority to compromise, settle, otherwise resolve, or withdraw any objections to disputed Claims and to compromise, settle, or otherwise resolve any disputed Claims without approval of the Bankruptcy Court, other than with respect to Administrative Expense Claims relating to compensation of professionals.

#### **4. Estimation of Claims**

The Debtors or the Reorganized Debtors may at any time request that the Bankruptcy Court estimate any Contingent Claim, Unliquidated Claim, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether any of the Debtors or the Reorganized Debtors previously objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the

Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. Prior to the Effective Date, except for estimation requests that in the reasonable determination of the Debtors need to be made on an emergency basis, the Debtors will provide three (3) calendar days prior notice to the Plan Sponsor of their intent to request estimation of any Claim and if timely requested by the Plan Sponsor, will work with the Plan Sponsor in interposing such a request.

In the event that the Bankruptcy Court estimates any Contingent Claim, Unliquidated Claim, or Disputed Claim, the amount so estimated will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Debtors or the Reorganized Debtors may pursue supplementary proceedings to object to the allowance of such Claim. The objection, estimation and resolution procedures set forth in Article VII of the Plan are intended to be cumulative and not exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

5. No Interest Pending Allowance

To the extent that a disputed Claim becomes an Allowed Claim after the Effective Date, the holder of such Claim will not be entitled to any interest thereon from the Effective Date to the date such Claim becomes Allowed.

**D. Timing and Manner of Distributions**

1. Timing of Distributions

Except as otherwise provided in the Plan, distributions on account of Allowed Claims will be made by the applicable Disbursing Agent on the Effective Date or as soon thereafter as practicable. If any portion of a Claim is disputed, no payment or distribution provided under the Plan will be made on account of any portion of such Claim unless and until the disputed portion of such Claim is resolved.

After the Effective Date, if a disputed Claim becomes allowed, the applicable Disbursing Agent will pay the holder of that claim 20 days after the order allowing the disputed Claim becomes a final order, or as soon thereafter as practicable, or such earlier date as agreed to by the Reorganized Debtors, in accordance with the provisions of the Plan.

Distributions made under the Plan in respect of Claims for which the Debtors have insurance will be made in accordance with the provisions of any applicable insurance policy. To the extent any portion of an Allowed Claim is not covered by any of the Debtors' insurance policies, whether or not because of deductible or self-insured retention obligations of the Debtors or Reorganized Debtor, such uninsured portion will be paid by the Debtors or Reorganized Debtor pursuant to the plan. Nothing contained in the Plan constitutes a waiver of any cause of action that the Debtors or the Reorganized Debtors may hold against any other entity, including insurers under any of the Debtors' or Reorganized Debtors' insurance policies.

Notwithstanding anything set forth in the Plan to the contrary, no distributions of Cash less than \$25 is required to be made under the Plan to any holder of a Claim unless a request for such payment is made in writing to the Disbursing Agent.

## 2. Delivery of Distributions

(a) General. Subject to Bankruptcy Rule 9010, all distributions to a holder of an Allowed Claim or Allowed Equity Interest will be made to the address of the holder thereof as set forth (i) on the Schedules filed with the Bankruptcy Court or (ii) on the books and records of the Debtors or their agents, or (iii) in a letter of transmittal by such holders, unless the Debtors have been notified in writing of a change of address, including, without limitation, by the filing of a Proof of Claim by such holder that contains an address for such holder different from the address reflected on the foregoing listed documents.

(b) Distributions to holders of Allowed Note Claims. Reorganized PPC will deliver all distributions in respect of Allowed Note Claims to the applicable Indenture Trustee or such other entity or entities designated by the Debtors as the Disbursing Agent under the Notes. Upon delivery of the foregoing distributions to the applicable Indenture Trustee or such designee(s), Reorganized PPC will be released of all liability with respect to the delivery of such distributions. The applicable Indenture Trustee or such designee(s) will transmit the distributions to the holders of the Allowed Note Claims. Reorganized PPC will provide whatever reasonable assistance may be required by the applicable Indenture Trustee or such designee(s) with respect to such distributions.

(c) Distributions to holders of Allowed BMO Secured Claims and DIP Claims. BMO will deliver all distributions in respect of Allowed BMO Secured Claims and DIP Claims pursuant to the terms of the relevant credit agreement to those lenders who are lenders under the terms of the relevant credit agreements as of the date of distributions to BMO on account of the Allowed BMO Secured Claims and DIP Claims.

(d) Withholding and Reporting Requirements. In connection with the Plan and all instruments issued in connection therewith and distributed thereon, any party issuing any instrument or making any distribution under the Plan, will comply with all applicable withholding and reporting requirements imposed by any federal, state or local taxing authority, and all distributions under the Plan will be subject to any such withholding or reporting requirements. Notwithstanding the above, each holder of an Allowed Claim that is to receive a distribution under the Plan will have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such distribution. Any party issuing any instrument or making any distribution under the Plan has the right, but not the obligation, to not make a distribution until such holder has made arrangements satisfactory to such issuing or disbursing party for payment of any such tax obligations.

## 3. Unclaimed Distributions

In the event that any distribution to any holder is returned as undeliverable, the Reorganized Debtors will use reasonable efforts to determine the current address of such holder, but no distribution to such holder will be made unless and until the Reorganized Debtors have determined the then-current address of such holder, at which time such distribution will be made to such holder without interest from the original distribution date through the new distribution date; *provided* that such distributions will be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year from the Effective Date. After such date, all unclaimed property or interest in property (including any stock) will revert to the applicable Reorganized Debtor, and the Claim of any other Entity to such property or interest in property will be discharged and forever barred.

4. Manner of Payment

At the option of the Disbursing Agent, any Cash payment to be made hereunder may be made by a check or wire transfer or as otherwise required or provided in applicable agreements.

5. Fractional Shares

No fractional shares of New PPC Common Stock will be distributed under the Plan. When any distribution pursuant to the Plan on account of an Allowed Equity Interest would otherwise result in the issuance of a number of shares of New PPC Common Stock that is not a whole number, the actual distribution of shares of New PPC Common Stock will be rounded as follows: (i) fractions of one-half ( $\frac{1}{2}$ ) or greater will be rounded to the next higher whole number and (ii) fractions of less than one-half ( $\frac{1}{2}$ ) will be rounded to the next lower whole number with no further payment or other distribution therefor. The total number of authorized shares of New PPC Common Stock to be distributed to holders of Allowed Equity Interests will be adjusted as necessary to account for the rounding provided herein.

6. Setoffs and Recoupment

The Debtors may, but will not be required to, set off or recoup against any Claim (for purposes of determining the Allowed amount of such Claim on which distribution will be made) any Claims of any nature whatsoever that the Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder will constitute a waiver or release by the Debtors of any such Claim the Debtors may have against the holder of such Claim.

**E. Treatment of Executory Contracts and Unexpired Leases**

1. Contracts to be Assumed or Rejected

The Plan provides for the Debtors to assume those executory contracts and unexpired leases specifically designated as a contract or lease to be assumed on Schedule 8.1 to the Plan. The Plan also provides that the following types of executory contracts will be assumed, unless specifically listed on Schedules 8.7 or 8.9 as being a rejected contract or previously rejected pursuant to order of the Bankruptcy Court: (a) insurance policies; (b) change in control agreements, severance agreements and similar agreements, as may have been amended during the Chapter 11 Cases; (c) employee agreements, as may have been executed or amended during the Chapter 11 Cases; (d) contracts with growers; (e) contracts with catchers and haulers; (f) contracts with customers of one or more of the Debtors; (g) contracts with vendors who have entered into a contract with one or more of the Debtors entitled "Pilgrim's Pride Corporation Construction Agreement and General Conditions"; (h) Contracts with vendors who have entered into a contract with one or more of the Debtors entitled "Master Vendor Agreement"; and (i) Compensation and Benefit Programs. All other executory contracts and unexpired leases will be rejected unless (y) already assumed, assumed and assigned, or rejected pursuant to an order of the Bankruptcy Court entered on or before the Effective Date, (z) there is a motion for approval of the assumption, assumption and assignment, or rejection of such contract or lease that has been filed and served prior to the Confirmation Date.

The Debtors will file Schedules 8.1, 8.7, and 8.9 in a supplement to the Plan no later than ten (10) days prior to the Confirmation Hearing to approve the Plan. Any time prior to the Confirmation Date, the Debtors may amend, in consultation with the Plan Sponsor, Schedules 8.1, 8.7 and 8.9. The Debtors will provide notice of such amendment to the Equity Committee, the Creditors' Committee, the Postpetition Lenders and parties affected by any amendment to Schedules 8.1, 8.7 and 8.9. Any executory contract or unexpired lease that has already been assumed or rejected pursuant to a final order



of the Bankruptcy Court or by procedures authorized by the Bankruptcy Court will not be rejected or assumed again pursuant to the Plan. Executory contracts and unexpired leases that are listed on Schedules 8.1 and 8.9 relating to the use or occupancy of real property are broadly defined to include related agreements or supplements and executory contracts or unexpired leases appurtenant to the premises. The treatment of these other agreements will be the same as for the underlying agreement (i.e., both will be assumed or both will be rejected) unless the Debtors specifically treat the other agreements separately in accordance with the provisions of the Plan.

## 2. Payment of Cure Amounts

Generally, if there has been a default (other than a default specified in section 365(b)(2) of the Bankruptcy Code) under an executory contract or unexpired lease, the debtor can assume the contract or lease only if the debtor cures the default. A condition to the assumption of an executory contract or unexpired lease is that any default under an executory contract or unexpired lease that is to be assumed pursuant to the Plan will be cured in a manner consistent with the Bankruptcy Code and as set forth in the Plan. Accordingly, except as may otherwise be agreed to by the parties, within 30 days after the Effective Date, the Reorganized Debtors will pay all undisputed cure claims. All disputed defaults that are required to be cured will be cured either within 30 days of the entry of a final order determining the amount, if any, of the Debtors' liability with respect to such cure claim, or as may otherwise be agreed to by the parties.

To the extent any non-Debtor party to an executory contract or an unexpired lease files an objection to the Debtors' proposed cure amounts and the alleged cure amount exceeds \$300,000, the Debtors will provide notice thereof to the Plan Sponsor as provided in Section 5.02(d) of the SPA.

## 3. Rejection Damage Claims

If an entity with a Claim for damages arising from the rejection of an executory contract or unexpired lease under the Plan has not filed a proof of claim for such damages, and served upon counsel for the Reorganized Debtors within 30 days after the later of (i) notice of entry of the Confirmation Order and (ii) notice of an amendment to Schedules 8.1, 8.7, 8.9, 8.9(a) and 8.9(b), that Claim will be barred and will not be enforceable against the Debtors or Reorganized Debtors. All such Claims not filed within such time will be forever barred from assertion against the Debtors and their estates, the Reorganized Debtors, their respective property and their respective successors or assigns.

## 4. Indemnification Obligations

Subject to the occurrence of the Effective Date, the obligations of the Debtors as of the Commencement Date to indemnify, defend, reimburse or limit the liability of directors, officers or employees who are directors, officers or employees of the Debtors on or before the Effective Date, against any claims or causes of action, as provided in the Debtors' certificates of incorporation, bylaws, other organizational documents or applicable law, will be assumed by the Debtors on the Effective Date with the same effect as though such obligations constituted executory contracts that are assumed under section 365 of the Bankruptcy Code, and all such obligations will survive confirmation of the Plan, remain unaffected thereby and not be discharged, irrespective of whether such indemnification, defense, reimbursement or limitation is owed in connection with an event occurring before or after the Commencement Date. The prosecution of any indemnified cause of action against the Debtors or any non-debtor will upon the Effective Date be enjoined and prohibited, except solely for the purpose of obtaining a recovery from any available insurance policy proceeds. The Plan is intended to effect the assumption of the indemnification obligations of the Debtors as provided in the Debtors' certificates of incorporation, bylaws, other organizational documents and applicable law, and the Plan will not, in and of

itself, be deemed to create any new indemnification obligations on the part of the Debtors to directors, officers or employees of the Debtors who were directors, officers or employees of the Debtors on or before the Effective Date.

5. Change in Control Agreements<sup>12</sup>

PPC entered into change in control agreements with (i) each of Lonnie Ken Pilgrim, Chairman, Richard A. Cogdill, the Chief Financial Officer, and certain other key officers in October 2008 and (ii) each of Don Jackson and certain other key officers in September 2009, to be effective on the Effective Date (collectively, the “Change in Control Agreements”). The Change in Control Agreements have an initial term of three years. The Change in Control Agreements are being assumed by the Reorganized Debtors. The Change in Control Agreements have two triggers: (1) a change in control (the “Change in Control”) and (2) separation from Pilgrim’s Pride. The change of ownership of PPC pursuant to the Plan will qualify as the first trigger for the first two years following the Effective Date.

Generally, the Change in Control Agreements provide that, except in the case of Dr. Jackson, any stock options and other equity awards held by the executives will become fully vested and exercisable upon a Change in Control (however, no such awards will be outstanding as of the Change in Control) and that, if PPC terminates an executive’s employment for reasons other than “cause” or if the executive resigns for “good reason” (as these terms are defined in the Change in Control Agreements) within a specified time period following a Change in Control then the executive will be entitled to certain severance benefits. The employment period is 24 months in the case of Mr. Pilgrim and Dr. Jackson and 18 months in the case of Mr. Cogdill. Upon the termination of an executive’s employment during the employment period, the Change in Control Agreements provide:

- For a lump sum severance payment that includes the executive’s target annual bonus for the fiscal year in which the termination occurs, prorated through the date of termination, and an amount based on the sum of the executive’s annual base salary and target annual bonus, multiplied by 3.0 in the case of Mr. Pilgrim and Dr. Jackson and by 2.5 in the case of Mr. Cogdill.
- That the executives may be entitled to receive a tax gross-up payment to compensate them for specified excise taxes, if any, imposed on the severance payment.
- Up to 18 months of PPC-paid COBRA premiums.
- In the case of Dr. Jackson, any stock option and other equity awards held by him will become fully vested and exercisable.

In addition, the Change in Control Agreements provide that, for a period of 24 months in the case of Mr. Pilgrim and Dr. Jackson and 18 months in the case of Mr. Cogdill, from the date of any termination of the executive’s employment that results in a severance payment under the executive’s Change in Control Agreement, the executive will not (a) divulge confidential information regarding the Company, (b) solicit or induce employees of the Company to terminate their employment with the Company, or (c) seek or obtain any employment or consulting relationship with any specified competitor of the Company.

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<sup>12</sup> The description of the Change in Control Agreements herein is for summary purposes only and in case of any conflict between a Change in Control Agreement and this Disclosure Statement, the Change in Control Agreement will govern.

In addition to the Change in Control Agreements described above, on the Effective Date, the Reorganized Debtors will enter into change in control or severance agreements with certain employees, as agreed with the Plan Sponsor.

6. Employment Agreements with Don Jackson and Jerry Wilson

The Reorganized Debtors will assume the employment agreements that PPC entered into with Don Jackson (“Dr. Jackson”) as Chief Executive Officer and President on January 27, 2009 and Jerry Wilson (“Mr. Wilson”) as Executive Vice President, Sales on March 11, 2009. The employment agreements have a term of three years, but they may be extended with the mutual written consent of the parties. The material terms of the employment agreements with Dr. Jackson and Mr. Wilson are as follows:<sup>13</sup>

- The annual base salary for Dr. Jackson will not be less than \$1,500,000 and for Mr. Wilson will be \$500,000 during the term of the agreements.
- Dr. Jackson and Mr. Wilson received sign-on bonuses that are subject to repayment on a pro-rata basis over a three year period: Dr. Jackson in the amount of \$3,000,000 and Mr. Wilson in the amount of \$500,000 (collectively, the “Sign-on Bonus”).
- Upon confirmation of the Plan and the attainment of certain performance targets, an equity award of up to 3,085,656 shares of PPC’s common stock (the “Stock Grant”), which was received by Dr. Jackson as a sign-on bonus, will vest and Dr. Jackson will be entitled to receive up to \$2,000,000 as a reorganization bonus (“Reorganization Bonus”).
- If either of the employment agreements are terminated other than for “cause” by PPC or its successor or with “good reason” by Dr. Jackson or Mr. Wilson during their term, any remaining unforgiven amount of the Sign-on Bonus will be immediately forgiven. In addition, Mr. Wilson will receive a *pro rata* portion of his annual performance bonus.
- If either Dr. Jackson or Mr. Wilson terminates his employment without “good reason” (as such term is defined in the employment agreements) during the term of his respective employment agreement, such executive will be required to repay PPC any remaining unforgiven amount of the Sign-on Bonus, and, in the case of Dr. Jackson, the unvested portion of his Stock Grant will forfeit.
- If PPC or its successor terminates the executive’s employment for “cause” (as such term is defined in the employment agreements) during the term, Dr. Jackson will have any remaining unforgiven amount of the Sign-on Bonus immediately forgiven and the unvested portion of his Stock Grant will forfeit and Mr. Wilson will be required to repay PPC any remaining unforgiven amount of the Sign-on Bonus.
- After the date of the termination of Dr. Jackson or Mr. Wilson, such executive may not solicit or induce employees of PPC to terminate their employment with PPC

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<sup>13</sup> The description of the employment agreements herein is for summary purposes only and in case of any conflict between an employment agreement and this Disclosure Statement, the employment agreements will govern.

during the 12-month period, in the case of Mr. Wilson, and 24 months, in the case of Don Jackson, following the date of employment termination or seek or obtain any employment or consulting relationship with any specified competitor of PPC during the restricted period.

#### 7. Retiree Benefits

On and after the Effective Date, pursuant to section 1129(a)(13) of the Bankruptcy Code, the Reorganized Debtors will continue to pay all retiree benefits as that term is defined in section 1114 of the Bankruptcy Code) of the Debtors, except with respect to any retiree benefits of the Debtors (i) that were terminated or rejected prior to the Confirmation Date (to the extent such termination or rejection did not violate section 1114 of the Bankruptcy Code) or (ii) are subject to a motion to reject as of the Confirmation Date or have been specifically waived by the beneficiaries of such retiree benefits, for the duration of the period for which the Debtors had obligated themselves to provide such benefits and subject to the right of the Reorganized Debtors to modify or terminate such retiree benefits in accordance with the terms thereof.

#### **F. Conditions Precedent to Confirmation of Plan and Occurrence of the Effective Date of Plan**

The Effective Date will not occur and the Plan will not become effective unless and until the following conditions are satisfied in full or waived in accordance with Section 11.2 of the Plan:

(a) The Confirmation Order, in form and substance reasonably satisfactory to the Debtors, and, in so far as the Confirmation Order relates to or concerns the SPA or any matter contemplated therein, reasonably satisfactory to the Plan Sponsor, will have been entered and shall not be subject to any stay or injunction;

(b) All actions, documents, and agreements necessary to implement the Plan will have been effected or executed; and

(c) Other than those conditions that by their nature can only be satisfied at the closing of the transactions contemplated by the SPA, the conditions precedent to the SPA will have been satisfied or waived by the parties thereto and the Reorganized Debtors will have access to the Cash contributed by the Plan Sponsor.

#### **G. Waiver of Conditions**

Each of the conditions precedent listed above and in Section 11.1 of the Plan (other than entry of the Confirmation Order) may be waived in whole or in part, as applicable, by the Debtors or the Plan Sponsor. Any such waiver may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action.

#### **H. Effects of Failure of Conditions to Effective Date**

In the event the conditions precedent specified in Section 11.1 of the Plan have not been satisfied or waived pursuant to Section 11.2 of the Plan on or prior to the date to be specified in the Confirmation Order, then (i) the Confirmation Order will be vacated, (ii) no distributions under the Plan will be made, (iii) the Debtors and all holders of Claims and Equity Interests will be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred, (iv) all of the Debtors' obligations with respect to the Claims and Equity Interests will remain unchanged and nothing contained herein will be deemed to constitute a waiver or release of any

claims by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any other Entity in any further proceedings involving the Debtors, and (v) nothing contained herein will prejudice in any manner the rights of the Debtors, including, without limitation, the right to seek a further extension of the exclusive periods under section 1121(d) of the Bankruptcy Code.

## **I. Effects of Confirmation on Claims and Equity Interests**

### **1. Vesting of Asset**

Upon the Effective Date, all property of the Debtors' estates will vest in the Reorganized Debtors free and clear of all claims, liens, encumbrances, charges, and other interests, except as provided in the Plan. From and after the Effective Date, the Reorganized Debtors may operate their businesses and may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, except as provided in the Plan.

### **2. Discharge of Claims and Termination of Equity Interests**

The rights afforded to claimants and equity holders in the Plan, and the payments and distributions made thereby, will be in exchange for and in complete satisfaction, discharge and release of all existing debts and claims of any kind, nature or description whatsoever against the Debtors. All holders of existing claims against the Debtors will be enjoined from asserting against the Debtors, or any of their assets or properties, any other or further claim based upon any act or omission, transaction or other activity that occurred prior to the Effective Date, whether or not such holder has filed a proof of claim. In addition, on the Effective Date, each holder of a claim against the Debtors will be forever precluded and enjoined from prosecuting or asserting any discharged claim against the Debtors.

### **3. Discharge of Debtors**

**Upon the Effective Date and in consideration of the distributions to be made under the Plan, except as otherwise expressly provided in the Plan, each holder (as well as any trustee or agent on behalf of any holder) of a Claim and any affiliate of such holder will be deemed to have forever waived, released and discharged the Debtors, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, rights, and liabilities that arose prior to the Effective Date. As provided in section 524 of the Bankruptcy Code, such discharge will void any judgment against the Debtors, their estates, or any successor thereto at any time obtained to the extent it relates to a Claim discharged. Upon the Effective Date, all persons will be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting or asserting any discharged Claim against the Debtors, the estates, or any successor thereto.**

### **4. Injunction or Stay**

**Except as otherwise expressly provided in the Plan, all persons or entities who have held, hold or may hold Claims against or Equity Interests in and all other parties in interest, along with their respective present and former employees, agents, officers, directors, principals and affiliates, will be permanently enjoined, from and after the Effective Date, from taking any of the following actions against the Debtors, the Reorganized Debtors, their respective estates, any debtor who is indemnifiable by the Debtors or Reorganized Debtors, and their respective property, (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (ii) enforcing, attaching, collecting or recovering by any manner or means, whether directly or indirectly, of any judgment, award, decree or order, (iii)**

creating, perfecting, or enforcing, in any manner, directly or indirectly, any encumbrance of any kind, (iv) asserting any right of setoff, subrogation or recoupment of any kind with respect to any such Claim or Equity Interest, or (v) pursuing any Claim released pursuant to Article XII of the Plan. Such injunction will extend to any successors of the Debtors and the Reorganized Debtors and their respective properties and interests in properties.

5. Term of Injunction or Stays

Unless otherwise provided, all injunctions or stays arising under or entered during the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the later of the Effective Date and the date indicated in the order providing for such injunction or stay.

6. Injunction Against Interference with Plan

Upon the entry of the Confirmation Order, all holders of Claims and Equity Interests, and other parties in interest, along with their respective present and former employees, agents, officers, directors, principals and affiliates will be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

7. Exculpation

Notwithstanding anything herein or in the Plan to the contrary, as of the Effective Date, none of the Debtors, the Reorganized Debtors, the Committees, the Chief Restructuring Officer, the agents and lenders under the Prepetition BMO Credit Agreement and the Prepetition CoBank Credit Agreement, the agents and lenders party to the DIP Credit Agreement, and their respective directors, officers, employees, partners, members, agents, representatives, accountants, financial advisors, investment bankers, or attorneys (but solely in their capacities as such) will have or incur any liability for any claim, cause of action or other assertion of liability for any act taken or omitted to be taken since the Commencement Date in connection with, or arising out of, the Chapter 11 Cases, the formulation, dissemination, confirmation, consummation, or administration of the Plan, property to be distributed under the Plan, or any other act or omission in connection with the Chapter 11 Cases, the Plan, the Disclosure Statement or any contract, instrument, document or other agreement related thereto; provided, however, that the foregoing will not affect the liability of any person that would otherwise result from any such act or omission to the extent such act or omission is determined by a Final Order to have constituted willful misconduct, gross negligence, fraud, criminal conduct, intentional unauthorized misuse of confidential information that causes damages, or *ultra vires* act.

8. Releases by Holders of Claims and Equity Interests

Effective as of the Confirmation Date but subject to the occurrence of the Effective Date, and in consideration of the services provided to the Debtors by (a) the present and former directors, officers, employees, affiliates, agents, financial advisors, investment bankers, attorneys, and representatives of the Debtors, the Chief Restructuring Officer, (b) the Committees, (c) the agents and lenders under the Prepetition BMO Credit Agreement, (d) the agents and lenders under the Prepetition CoBank Credit Agreement, (e) the agents and lenders under the DIP Credit Agreement, (f) Pilgrim Interests, Ltd. (solely in its capacity as guarantor under the Guarantee Agreements), and (g) the Debtors and the Reorganized Debtors, each holder of a Claim or an Equity Interest that votes to accept the Plan (or is deemed to accept the Plan), and to the fullest extent permissible under applicable law, as such law may be extended or integrated after the

Effective Date, each holder of a Claim or Equity Interest that does not vote to accept the Plan, will release unconditionally and forever each of (a) the present and former directors, officers, employees, affiliates, agents, financial advisors, investment bankers, attorneys, and representatives of the Debtors, the Chief Restructuring Officer, (b) the Committees, (c) the agents and lenders under the Prepetition BMO Credit Agreement, (d) the agents and lenders under the Prepetition CoBank Credit Agreement, and (e) the agents and lenders under the DIP Credit Agreement, (f) Pilgrim Interests, Ltd. (solely in its capacity as guarantor under the Guarantee Agreements), and (g) the Debtors and the Reorganized Debtors, from any and all claims or causes of action that exist as of the Effective Date and arise from or relate to, in any manner, in whole or in part, the operation of the business of the Debtors, the subject matter of, or the transaction or event giving rise to, the Claim or Equity Interest of such holder, the business or contractual arrangements between any Debtor and such holder, any restructuring of such Claim or Equity Interest prior to the Chapter 11 Cases, or any act, omission, occurrence, or event in any manner related to such subject matter, transaction or obligation, or arising out of the Chapter 11 Cases, including, but not limited to, the pursuit of confirmation of the Plan, the consummation thereof, the administration thereof, or the property to be distributed thereunder; *provided*, that the foregoing will not operate as a waiver of or release from any causes of action arising out of the willful misconduct, gross negligence, fraud, criminal conduct, intentional unauthorized misuse of confidential information that causes damages, or *ultra vires* acts of any such person or entity.

9. Releases by Debtors and Reorganized Debtors

Effective as of the Confirmation Date but subject to the occurrence of the Effective Date, and in consideration of the services provided to the Debtors by (a) the present and former directors, officers, employees, affiliates, agents, financial advisors, investment bankers, attorneys, and representatives of the Debtors (including the Chief Restructuring Officer), (b) the Committees, (c) the agents and lenders under the Prepetition BMO Credit Agreement, (d) the agents and lenders under the Prepetition CoBank Credit Agreement, (e) the agents and lenders under the DIP Credit Agreement, and (f) Pilgrim Interests, Ltd. (solely in its capacity as guarantor under the Guarantee Agreements), each Debtor and Reorganized Debtor will release unconditionally and forever each of (a) the present and former directors, officers, employees, affiliates, agents, financial advisors, investment bankers, attorneys, and representatives of the Debtors (including the Chief Restructuring Officer), (b) the Committees, (c) the agents and lenders under the Prepetition BMO Credit Agreement, (d) the agents and lenders under to the Prepetition CoBank Credit Agreement, (e) the agents and lenders under the DIP Credit Agreement, and (f) Pilgrim Interests, Ltd. (solely in its capacity as guarantor under the Guarantee Agreements), from any and all claims or causes of action that exist as of the Effective Date and arise from or relate to, in any manner, in whole or in part, the operation of the business of the Debtors, the business or contractual arrangements between any Debtor and any such person or entity, or any act, omission, occurrence, or event in any manner related to such subject matter, transaction or obligation, or arising out of the Chapter 11 Cases, including, but not limited to, the pursuit of confirmation of the Plan, the consummation thereof, the administration thereof, or the property to be distributed thereunder; *provided*, that the foregoing will not operate as a waiver of or release from any causes of action arising out of the willful misconduct, gross negligence, fraud, criminal conduct, intentional unauthorized misuse of confidential information that causes damages, or *ultra vires* acts of any such person or entity.

10. Avoidance Actions

From and after the Effective Date, the Reorganized Debtors will have the sole right to prosecute any and all Avoidance Actions, equitable subordination actions or recovery actions under sections 105, 502(d), 510, 542 through 551, and 553 of the Bankruptcy Code that belong to the Debtors or

Debtors in Possession, other than with respect to any cause of action or Avoidance Action released in the Plan, in the Confirmation Order, or in any other Final Order of the Bankruptcy Court.

11. Retention of Causes of Action/Reservation of Rights

Except as provided in Sections 10.7 and 10.9 of the Plan, nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or relinquishment of any rights or cause of action that the Debtors or the Reorganized Debtors may have or which the Reorganized Debtors may choose to assert on behalf of their respective estates under any provision of the Bankruptcy Code or any applicable nonbankruptcy law, including, without limitation, (i) any and all Claims against any Entity, to the extent such Entity asserts a crossclaim, a counterclaim, and/or a Claim for setoff that seeks affirmative relief against the Debtors, the Reorganized Debtors, their officers, directors, or representatives and (ii) the turnover of any property of the Debtors' estates.

Nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or relinquishment of any claim, cause of action, right of setoff, or other legal or equitable defense that the Debtors had immediately prior to the Commencement Date, against or with respect to any Claim. The Reorganized Debtors will have, retain, reserve, and be entitled to assert all such claims, causes of action, rights of setoff, and other legal or equitable defenses that the Debtors had immediately prior to the Commencement Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Reorganized Debtors' legal and equitable rights respecting any Claim may be asserted after the Confirmation Date to the same extent as if the Chapter 11 Cases had not been commenced.

12. Limitation on Exculpation and Releases of Professionals

Nothing in Sections 10.7, 10.8 or 10.9 of the Plan is intended to (i) be construed to release or exculpate any entity from fraud, malpractice, criminal conduct, intentional unauthorized misuse of confidential information that causes damages, or *ultra vires* acts, or (ii) limit the liability of the professionals of the Debtors, the Reorganized Debtors, and the Committees to their respective clients pursuant to the relevant provisions of the Code of Professional Responsibility.

**J. Dissolution of Statutory Committees and Fee Review Committee**

On the Effective Date, the Committees will be dissolved and the members thereof will be released and discharged of and from all further authority, duties, responsibilities and obligations relating to and arising from and in connection with the Chapter 11 Cases. On the Effective Date, the retention or employment of all attorneys, financial advisors, accountants and other agents of the Creditors' Committee and Equity Committee will terminate other than for purposes of filing and prosecuting applications for final allowances of compensation for professional services rendered and reimbursement of expenses incurred in connection therewith. To the extent not discharged and released on or prior to the Confirmation Date, on the eleventh (11<sup>th</sup>) day following the entry of an order in respect of the last of any outstanding fee applications, the Fee Review Committee will be released and discharged from its obligations pursuant to the Order Granting Motion for (I) Appointment of a Fee Review Committee and (II) Amendment of the Interim Compensation Order [Docket No. 1624 in the Chapter 11 Cases].



## **K. Jurisdiction and Choice of Law**

On and after the Effective Date, the Bankruptcy Court will have exclusive jurisdiction over all matters arising out of, arising under, and related to the Chapter 11 Cases and the Plan pursuant to, and for the purpose of, sections 105(a) and 1142 of the Bankruptcy Code, including, without limitation:

(a) To hear and determine pending applications for the assumption or rejection of executory contracts or unexpired leases, the allowance of Claims resulting therefrom and any disputes with respect to executory contracts or unexpired leases relating to the facts and circumstances arising out of or relating to the Chapter 11 Cases;

(b) To determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date;

(c) To ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

(d) To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim or Equity Interest;

(e) To enforce the terms of the ADR Procedures Order and hear any matter arising from the alternative dispute resolution procedures established therein;

(f) To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is stayed, reversed, revoked, modified, or vacated for any reason;

(g) To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to prevent interference by any person with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

(h) To hear and determine any application to modify the Plan in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(i) To hear and determine all applications under sections 330, 331, and 503(b) of the Bankruptcy Code for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date;

(j) To consider any amendments to or modifications of the Plan or to cure any defect or omission, or reconcile any inconsistency, in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

(k) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan and the Confirmation Order; provided, however, that notwithstanding anything to the contrary in Article XII of the Plan, disputes arising in connection with the interpretation, implementation or enforcement of the SPA or the Exit Financing or any other transactions or payments contemplated thereby shall be heard and determined as set forth therein.

(l) Subject to paragraph (k) of Article XII of the Plan, to take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan or to maintain the integrity of the Plan following the Effective Date;

(m) To issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Person with consummation, implementation or enforcement of the Plan or the Confirmation Order;

(n) To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(o) To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including the expedited determination of tax under section 505(b) of the Bankruptcy Code);

(p) To determine the scope of any discharge of any Debtor under the Plan or the Bankruptcy Code;

(q) To recover all assets of the Debtors and all property of the Debtors' estates, wherever located;

(r) To hear and determine any rights, claims or causes of action held by or accruing to the Debtors pursuant to the Bankruptcy Code, any other federal or state statute, or any legal theory;

(s) To enter a final decree closing the Chapter 11 Cases;

(t) Subject to paragraph (k) of Article XII of the Plan, to determine any other matters that may arise in connection with or are related to the Plan, the Disclosure Statement, the Confirmation Order any of the Plan Documents, or any other contract, instrument, release or other agreement or document related to the Plan, the Disclosure Statement or the Plan Supplement; and

(u) To hear and determine any other matter not inconsistent with the Bankruptcy Code.

#### **L. Amendments or Modifications of the Plan**

As provided in section 1127 of the Bankruptcy Code, modification of the Plan may be proposed in writing by the Debtors at any time before the Confirmation Date, provided that the Plan, as altered, amended, or modified, satisfies the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the Debtors will have complied with section 1125 of the Bankruptcy Code; provided further that without the prior written consent of the Plan Sponsor, the Debtors may not propose amendments or modifications to any provision in the Plan that would reasonably be expected to have a material adverse effect on the Plan Sponsor or on the ability of the Company and the Plan Sponsor to consummate the transactions contemplated by the SPA except that no consent shall be required for any amendments or modifications to the Plan proposed by the Debtors that are consistent with the rights of PPC under the SPA. After the Confirmation Date, so long as such action does not materially and adversely affect the treatment of holders of Claims or Equity Interests under the Plan, the Debtors or the Reorganized Debtors may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan. A holder of a Claim or Equity Interest that has accepted the Plan will be deemed to have accepted the Plan, as altered, amended, or modified, if the proposed

alteration, amendment, or modification does not materially and adversely change the treatment of the Claim or Equity Interest of such holder.

**M. Revocation or Withdrawal of the Plan**

The Debtors reserve the right to revoke and withdraw the Plan prior to the Effective Date. If the Debtors revoke or withdraw the Plan with respect to any one or more of the Debtors, or if the Effective Date does not occur as to any Debtor, then, as to such Debtor, the Plan and all settlements and compromises set forth in the Plan and not otherwise approved by a separate Final Order will be deemed null and void and nothing contained in the Plan and no acts taken in preparation for consummation of the Plan will be deemed to constitute a waiver or release of any Claims against or Equity Interests in such Debtor or to prejudice in any manner the rights of any of the Debtors or any other Person in any other further proceedings involving such Debtor.

In the event that the Debtors choose to adjourn the Confirmation Hearing with respect to any one or more of the Debtors, the Debtors reserve the right to proceed with confirmation of the Plan with respect to those Debtors in relation to which the Confirmation Hearing has not been adjourned. With respect to those Debtors with respect to which the Confirmation Hearing has been adjourned, the Debtors reserve the right to amend, modify, revoke or withdraw the Plan and/or submit any new plan of reorganization at such times and in such manner as they consider appropriate, subject to the provisions of the Bankruptcy Code.

**N. Severability**

If, prior to the entry of the Confirmation Order, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, at the request of the Debtors, will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision as altered or interpreted will then be applicable. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order will constitute a judicial determination and will provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

**O. Governing Law**

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit hereto or a schedule or document in the Plan Supplement provides otherwise, the rights, duties, and obligations arising under the Plan will be governed by, and construed and enforced in accordance with, the laws of the State of Texas, without giving effect to the principles of conflict of laws thereof; provided, however, that the SPA will be governed by the laws as set forth therein.

**VII.**

**REORGANIZED DEBTORS**

**A. Select Historical Financial Information**

Debtors' historical financial information is set forth (without exhibits) on Exhibits C and D hereto, respectively:

- PPC's Annual Report on Form 10-K, as amended, for the fiscal year ended September 27, 2008; and
- PPC's Form 10-Qs for each of the quarters ended December 27, 2008, March 28, 2009 and June 27, 2009.

**B. Financial Projections (Five (5) Year Business Plan)**

The value of the securities to be issued pursuant to the Plan and the recoveries by holders of Allowed Claims who receive such securities, depend in part upon the ability of the Debtors to achieve financial results projected on the basis of certain assumptions.

To maximize creditor recoveries, the Debtors must seek to maximize the value of their businesses.

Additionally, for the Plan to meet the feasibility test of section 1129(a)(11) of the Bankruptcy Code, the Bankruptcy Court must conclude that confirmation of the Plan is not reasonably likely to lead to the liquidation or further reorganization of the Debtors.

With these considerations in mind, the Debtors prepared their projections, which as more fully set forth below, are based upon the Debtors' long-term business plan and in turn serve as the basis for the Plan. The Debtors believe that the assumptions that serve as the basis for the projections, subject to the updates described herein, are reasonable under the circumstances and that pursuit of the business plan will maximize the value of the businesses of the Debtors.

THE PROJECTIONS ARE PRESENTED SOLELY FOR THE PURPOSE OF PROVIDING "ADEQUATE INFORMATION" UNDER SECTION 1125 OF THE BANKRUPTCY CODE TO ENABLE THE HOLDERS OF CLAIMS AND EQUITY INTERESTS ENTITLED TO VOTE UNDER THE PLAN TO MAKE AN INFORMED JUDGMENT ABOUT THE PLAN AND SHOULD NOT BE USED OR RELIED UPON FOR ANY OTHER PURPOSE, INCLUDING THE PURCHASE OR SALE OF SECURITIES OF, OR CLAIMS OR EQUITY INTERESTS IN, THE DEBTORS OR ANY OF THEIR AFFILIATES.

THE ASSUMPTIONS AND RESULTANT PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES CONTAIN CERTAIN STATEMENTS THAT ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THE PROJECTIONS HAVE BEEN PREPARED BY THE DEBTORS' MANAGEMENT AND PROFESSIONALS. THESE PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE BASED UPON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO ASSURANCES CAN BE MADE AS TO THE ACCURACY OF THE ASSUMPTIONS AND RESULTANT PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES OR THE ABILITY OF THE DEBTORS AND THE REORGANIZED DEBTORS TO ACHIEVE THE PROJECTED RESULTS FOLLOWING THE EFFECTIVE DATE. THE PROJECTIONS SHOULD BE CONSIDERED IN LIGHT OF THE UPDATED INFORMATION DEVELOPED SINCE THEIR PREPARATION DISCUSSED IN "SUMMARY OF SIGNIFICANT ASSUMPTIONS IN FIVE-YEAR PLAN." SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE, AND EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE

DATE ON WHICH THE PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED, OR MAY BE UNANTICIPATED, AND THUS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

THE PROJECTIONS UTILIZE THE PRELIMINARY VALUATION PREPARED BY LAZARD SOLELY IN CONNECTION WITH THE FILING OF THE DISCLOSURE STATEMENT. HOWEVER, NO FRESH START ADJUSTMENTS ARE REFLECTED IN THE INCOME STATEMENT INCLUDED IN THE PROJECTIONS. AS A RESULT, THE OPERATING RESULTS MAY NOT BE INDICATIVE OF TRUE PERFORMANCE, AND FINANCIAL RATIOS CALCULATED USING THE PROJECTIONS MAY NOT BE ACCURATE OR REPRESENTATIVE OF THE REORGANIZED DEBTORS AFTER EMERGENCE. ABSENT A STIPULATED OR BANKRUPTCY COURT-DETERMINED ENTERPRISE VALUE OF THE DEBTORS, THE DEBTORS INTEND TO IDENTIFY AN ENTERPRISE VALUE FOR PURPOSES OF "FRESH START" ACCOUNTING UTILIZING MARKET DATA, INCLUDING THE TRADING PRICES OF THE SECURITIES OF THE DEBTORS THAT MAY DIFFER MATERIALLY FROM THE VALUATION ASSUMED IN THE PROJECTIONS.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TO COMPLYING WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS NOR IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THE DEBTORS' INDEPENDENT ACCOUNTANTS, ERNST AND YOUNG, LLP ("E&Y"), HAVE NEITHER EXAMINED NOR COMPILED THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION AND, ACCORDINGLY, DO NOT EXPRESS AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT THERETO.

THE DEBTORS DO NOT, AS A MATTER OF COURSE, PUBLISH THEIR BUSINESS PLANS AND STRATEGIES OR PROJECTIONS OF THEIR ANTICIPATED FINANCIAL POSITION OR RESULTS OF OPERATIONS. ACCORDINGLY, THE DEBTORS DO NOT INTEND, AND DISCLAIM ANY OBLIGATION, TO: (1) FURNISH UPDATED BUSINESS PLANS OR PROJECTIONS TO HOLDERS OF CLAIMS OR EQUITY INTERESTS PRIOR TO THE EFFECTIVE DATE, OR TO HOLDERS OF SECURITIES OF ANY DEBTOR, OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE; (2) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC; OR (3) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE. HOWEVER, FROM TIME-TO-TIME, THE DEBTORS WILL PREPARE UPDATED PROJECTIONS IN CONNECTION WITH PURSUING FINANCING (INCLUDING THE EXIT FINANCING), CREDIT RATINGS AND OTHER PURPOSES. SUCH PROJECTIONS MAY DIFFER MATERIALLY FROM THE PROJECTIONS PRESENTED HEREIN.

THE ASSUMPTIONS AND RESULTANT COMPUTATIONS WERE MADE SOLELY FOR PURPOSES OF PREPARING THE PROJECTIONS AND SUBSEQUENTLY IDENTIFIED VARIANCES IN CONNECTION WITH EFFECTING FRESH START ACCOUNTING. THE DEBTORS AND THE REORGANIZED DEBTORS WILL BE REQUIRED TO DETERMINE THE ENTERPRISE VALUE, THE FAIR VALUE OF THEIR ASSETS, AND THEIR ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE. SUCH DETERMINATION WILL BE BASED UPON THE FAIR VALUES AS OF THAT DATE, WHICH COULD BE MATERIALLY GREATER OR LOWER THAN THE VALUES ASSUMED IN THE FOREGOING COMPUTATIONS. IN ALL

EVENTS, THE REORGANIZATION VALUE, AS WELL AS THE DETERMINATION OF THE FAIR VALUE OF THE DEBTORS' PROPERTY, EQUIPMENT, AND INVENTORIES AND THE DETERMINATION OF THEIR ACTUAL LIABILITIES, WILL BE MADE AS OF THE EFFECTIVE DATE. ALTHOUGH THE DEBTORS EXPECT TO UTILIZE A CONSISTENT METHODOLOGY, THE CHANGES BETWEEN THE AMOUNTS OF ANY OR ALL OF THE FOREGOING ITEMS AS ASSUMED IN THE PROJECTIONS AND THE ACTUAL AMOUNTS THEREOF AS OF THE EFFECTIVE DATE MAY BE MATERIAL.

1. Consolidated Projected Financial Statements (“The Projections”)

Attached as Exhibit F hereto are the Debtors' consolidated projected financial statements.

2. Purpose and Objectives

To maximize creditor recoveries, the Debtors must seek to maximize the value of their businesses. Additionally, for the Plan to meet the feasibility test of section 1129(a)(11) of the Bankruptcy Code, the Bankruptcy Court must conclude that confirmation of the Plan is not reasonably likely to lead to the liquidation or further reorganization of the Debtors.

With these considerations in mind, the Debtors prepared their projections, which are more fully set forth below, based on the Debtors' long-term business plan. These projections, in turn, serve as the basis for the Plan. The Debtors believe the assumptions that serve as the basis for the projections, subject to the updates described herein, are reasonable under the circumstances and that pursuit of the business plan will maximize the value of the businesses of the Debtors.

The projections are done on consolidated level basis (for both Debtors and non-Debtors) for the remainder of fiscal year 2009, from fiscal year 2010 to fiscal year 2014.

3. Key Drivers of the Projections

Grain markets: Five-year projected grain markets were provided by Informa Economics and Express Markets Inc.

Poultry market: Five-year projected poultry markets were provided by Informa Economics and Express Markets Inc.

Sales projections: As projected by PPC's sales management

- (i) Fiscal year 2010 sales projections: the projections incorporate improvement on sales mix composition geared towards reducing commodity sales and increasing core business
- (ii) Fiscal year 2011 – 2014 sales projections: the projections incorporate modest annual growth of 2-3% to maintain stable market share going-forward after FY 2010

Operational improvement: Announced and implemented operational improvements such as closures of plants, SG&A reduction and lean initiatives are incorporated in the projections. Future additional improvements will provide further upside to the Debtors' financial performance beyond the projections.

#### 4. Cost Assumptions in the Projections

Live operations costs: Live costs include grain cost assumptions, the costs of milling and delivering feed to live poultry, medication, administration costs, and grower pay to raise the poultry. These costs are projected at current levels, adjusted for known differences, including operational savings.

Operating expenses: Projections of operating expenses include labor, maintenance, utilities, packaging and ingredients based on historic costs (most are expressed as cost per production pound), adjusted for known differences including operational savings.

Corporate overhead: Projected corporate overhead expenses are based on historic costs, adjusted for known differences including operational savings.

Capacity utilization: The projections utilize production schedules provided by the Debtors' supply chain management, which are matched against the sales plan, reflecting the Debtors' business plan on becoming a sales-driven company. Production schedules provide production pounds which drive major cost items in the projections. The Debtors currently operate below full-capacity (full capacity is defined as five-day-a-week full production at all Debtors' facilities currently being operated). The projections incorporate a gradual increase in production from fiscal year 2010 to accommodate increasing future sales, reaching full capacity in fiscal year 2013. The Debtors believe increasing production levels to full capacity in fiscal year 2013 and slightly beyond full capacity in fiscal year 2014 is feasible without any significant capital expenditure since the Debtors believe they have the sufficient capital base employed.

Cost inflationary factor: An inflationary factor of 2.2% (based on USDA Agricultural Projections) is incorporated into the cost items in the projections from fiscal year 2011 to fiscal year 2014.

Interest Expense and Debt Payments: Projections on interest expense and scheduled principal payments conform to the Debtors' exit financing arrangements.

Capital Expenditures and Depreciation: Projected capital expenditures include maintenance and efficiency / expansionary capital spending to accommodate the Debtors' business plan. Furthermore, the Debtors projected certain "catch-up" capital expenditure in fiscal year 2010 and fiscal year 2011 for deferred fixed-asset spending that the Debtors experienced several years prior to commencement of the Chapter 11 Cases. Long-term capital expenditure is expected to be at levels to replace depreciation of fixed assets.

Marketing Program: The projections incorporate a marketing program to support the Debtors' plan on sales mix shift towards core business and efforts on maintaining market share. Purposes of the marketing program will include, but will not be limited to, creating a creative marketing team, developing brand awareness campaign and new promotional, and product development. The marketing program spending will start from fiscal year 2010; and there will be a one-year lag in which the benefits toward core sales price points will be realized one year later from fiscal year 2011.

Working Capital Assumptions: The projections utilize commonly-used methods in estimating working capital going-forward, using measures such as Day Sales Outstanding, Inventory Days and Days Payable Outstanding. These measures are projected based on historic levels, adjusted for known differences. The projections do not assume any significant changes in the Debtors' working capital situation aside from normal movements to support projected business operations.

Reorganization costs: Reorganization costs will be accrued and paid during the period of the Chapter 11 Cases; and any estimated remaining outstanding reorganization costs after the Effective Date will be treated as administrative claims and paid accordingly to the treatment of such claims.

Income taxes: The five-year plan assumes a statutory tax rate of 37%.

Dividends: The projections assume no dividends will be paid.

5. Poultry Industry Outlook in the Projections

The outlook for the poultry industry in 2009 is generally considered to be positive due to the decline in feed ingredient prices since mid-2008 and a reduction in the supply of chicken enacted by some of the industry producers. Prices for corn and soybeans, for example, have dropped substantially since July 2008, and are at this time expected to remain relatively flat for the remainder of fiscal year 2009. Prices of the Debtors' chicken products are expected to increase over the next 12 months as total industry supply has been moderated and the wave of beef and pork liquidations are expected to subside. The Debtors are reasonably confident that improved economic conditions in the chicken industry and an improved balance sheet will lead to a successful restructuring of the Debtors' businesses.

6. Commodity Factor: Grain/Feed Ingredients

Feed ingredient purchases are the single largest component of the Debtors' cost of sales, representing 34.7% of consolidated cost of sales incurred in the first nine months of fiscal 2009 and 39.5% of consolidated cost of sales incurred in fiscal 2008. The production of feed ingredients is positively or negatively affected primarily by weather patterns throughout the world, the global level of supply inventories and demand for feed ingredients, and the agricultural policies of the U.S. and foreign governments.

The cost of corn and soybean meal, the Debtors' primary feed ingredients, increased sharply during the prior two years and reached unprecedented levels in the last half of fiscal 2008. Market prices for these feed ingredients decreased in the first nine months of fiscal 2009. Market prices for feed ingredients remain volatile, however, and there can be no assurance that they will not increase materially as a result of, among other things, 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 and lowest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the past four years, for each quarter in fiscal 2008 and for the first, second and third quarters of fiscal 2009:

	Corn		Soybean Meal	
	Highest Price	Lowest Price	Highest Price	Lowest Price
2009:				
Third Quarter	\$ 4.50	\$ 3.40	\$ 433.40	\$ 278.00
Second Quarter	4.28	3.38	326.00	264.00
First Quarter	5.24	2.90	302.00	237.00
2008:				
Fourth Quarter	7.50	4.86	455.50	312.00
Third Quarter	7.63	5.58	427.90	302.50
Second Quarter	5.70	4.49	384.50	302.00
First Quarter	4.57	3.35	341.50	254.10
2007:	4.37	2.62	286.50	160.20
2006:	2.68	1.86	204.50	155.80
2005:	2.63	1.91	238.00	146.60



Based on the Debtors' feed consumption during the second quarter of fiscal 2009, hypothetical \$0.01 per bushel movement in corn price and \$1 per ton movement in soybean meal price would have resulted in annualized cost of sales changes of approximately \$2 million and \$1.8 million, respectively.

According to Informa Economics and Express Markets, Inc., the projected confidence intervals (reflecting one standard deviation or 68% probability) can range from \$1 per bushel for corn and \$54 per ton for soybean meal. Thus, the Debtors might experience approximately \$400 million in annual cost of sales fluctuation due to corn price movement and approximately \$190 million due to soybean meal price movement, respectively. This variability could be considered normal movements within the relevant commodity cycles.

### **C. Valuation**

The Debtors have been advised by Lazard, its investment banker, with respect to the estimated enterprise value of Pilgrim's Pride, as reflected by the estimated equity value of the Reorganized PPC that was agreed upon as part of the transaction with the Plan Sponsor. Lazard has undertaken this valuation analysis for the purpose of determining value available for distribution to holders of Allowed Claims and Allowed Equity Interests pursuant to the Plan. In addition to specific risks mentioned in this section, the discussion of the valuation analysis should be read in conjunction with the discussion of the transaction with the Plan Sponsor and certain risk factors contained in Articles V and VIII.

Pursuant to the SPA, the Plan Sponsor has agreed to purchase 64% of the New PPC Common Stock for \$800 million. The remaining 36% of the New PPC Common Stock would be valued at \$450 million, resulting in an aggregate estimated total equity value of \$1,250 million, before contemplation of any potential synergies as discussed in Section V(C)<sup>14</sup>. Based upon the anticipated net debt at the Effective Date, of \$1,486 million, Lazard's estimate of the enterprise value is \$2,736 million (excluding approximately \$50 million in estimated restricted cash). This estimate was based in part on information provided by the Debtors, solely for purposes of the Plan, as of November 21, 2009.<sup>15</sup> For purposes of this valuation, Lazard assumes that no material changes that would affect value occur between the date of the Disclosure Statement and the Assumed Effective Date.

Lazard's analysis addresses the estimated enterprise value of Pilgrim's Pride, as reflected by the estimated equity value of the Reorganized PPC, assuming the Plan is approved and becomes effective. It does not address other aspects of the proposed reorganization, the Plan or any other transactions and does not address the Debtors' underlying business decision to effect the reorganization set forth in the Plan. Lazard's estimated total equity and enterprise values do not constitute a recommendation to any holder of Allowed Claims or Allowed Equity Interests as to how such person should vote or otherwise act with respect to the Plan. Lazard has not been asked to, nor did Lazard, express any view as to what the value of the Debtors' securities will be when issued pursuant to the Plan or the prices at which they may trade in the future. The estimated total equity and enterprise values set forth herein do not constitute an opinion as to fairness from a financial point of view to any person of the consideration to be received by such person under the Plan or of the terms and provisions of the Plan.

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<sup>14</sup> The views regarding any synergies that may be created through the transaction with the Plan Sponsor are the views of the Plan Sponsor and have not been independently verified by either the Debtors or Lazard.

<sup>15</sup> If the Plan is approved by the Bankruptcy Court, the Debtors expect to emerge from chapter 11 by the end of December 2009 (the "Assumed Effective Date"). Lazard does not expect the estimated enterprise value of \$2,736 million to change materially between November 21, 2009 and the Assumed Effective Date.

THE ASSUMED ENTERPRISE VALUE, AS OF NOVEMBER, 21 2009, REFLECTS WORK PERFORMED BY LAZARD ON THE BASIS OF INFORMATION AVAILABLE TO LAZARD CURRENT AS OF THE DATE OF THIS DISCLOSURE STATEMENT. ALTHOUGH SUBSEQUENT DEVELOPMENTS MAY AFFECT LAZARD'S CONCLUSIONS, NEITHER LAZARD NOR THE DEBTORS HAVE ANY OBLIGATION OR INTENT TO UPDATE, REVISE OR REAFFIRM ITS ESTIMATE. THE PROJECTIONS USED IN THE VALUATION ANALYSIS ALSO ASSUME THAT GENERAL ECONOMIC, FINANCIAL, AND MARKET CONDITIONS AS OF THE EFFECTIVE DATE WILL NOT DIFFER FROM THOSE PREVAILING AS OF THE DISCLOSURE STATEMENT.

With respect to the Projections prepared by the management of the Debtors, Lazard assumed that such Projections were reasonably prepared in good faith and on a basis reflecting the Debtors' most accurate currently available estimates and judgments as to the future operating and financial performance of Pilgrim's Pride. Lazard's estimates of equity and enterprise value, assumes that Pilgrim's Pride will achieve its Projections in all material respects. If the business performs at levels above or below those set forth in the Projections, and/or levels of certain Allowed Claims are lower or higher than previously anticipated, it may have a material impact on the value of New PPC Common Stock. However, pursuant to the terms of the SPA, the initial allocation of New PPC Common Stock will not change.

Such estimates do not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly higher or lower than the amounts set forth herein. The value of an operating business is subject to numerous uncertainties and contingencies which are difficult to predict and will fluctuate with changes in factors affecting the financial condition and prospects of such a business. As a result, the estimated equity and enterprise values set forth herein are not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. Neither the Debtors, Lazard, nor any other person assumes responsibility for their accuracy. In addition, the valuation of newly issued securities, such as New PPC Common Stock is subject to additional uncertainties and contingencies, all of which are difficult to predict. Actual market prices of such securities at issuance will depend upon, among other things, the operating performance of the Debtors, prevailing interest rates, conditions in the financial markets, the anticipated holding period of securities received by prepetition constituents (some of whom may prefer to liquidate their investment rather than hold it on a long-term basis), and other factors which generally influence the prices of securities such as supply/demand imbalances and levels of liquidity in the secondary market.

THE ESTIMATES OF EQUITY AND ENTERPRISE VALUES DETERMINED BY LAZARD REPRESENT ESTIMATES AND DO NOT REFLECT VALUES THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS. THE IMPUTED ESTIMATE OF THE EQUITY VALUE OF THE REORGANIZED PPC ASCRIBED IN THE ANALYSIS DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET TRADING VALUE. ANY SUCH TRADING VALUE MAY BE MATERIALLY DIFFERENT FROM THE IMPUTED ESTIMATE OF THE EQUITY VALUE FOR THE REORGANIZED PPC ASSOCIATED WITH LAZARD'S VALUATION ANALYSIS.

#### **D. Corporate Governance and Management of the Reorganized Debtors**

##### **1. Initial Board of Directors**

The identity of the initial board of directors for each Debtor will be disclosed in the Plan Supplement; provided; however, that the identity of the independent director of the Reorganized PPC to

be designated by the Plan Sponsor will be disclosed no later than 3 calendar days before the Confirmation Hearing.

Pursuant to the Stockholders Agreement and the Restated Certificate of Incorporation, on the Effective Date, the board of directors of Reorganized PPC will consist of 9 members comprised as follows:

- (i) 6 members, including the Chairman of the Board, will be designated by the Plan Sponsor (the “Plan Sponsor Designees”). The chief executive officer of Reorganized PPC will be appointed to the initial board of directors of Reorganized PPC and will be included in the Plan Sponsor Designees. It is currently anticipated that Michael Cooper, a member of the Equity Committee, will also be included in the Plan Sponsor Designees.
- (ii) 2 members (the “Equity Directors”) will be designated by the Equity Committee. The Equity Directors will qualify as “independent directors” pursuant to the definition set forth in Section 303A.02 of the New York Stock Exchange Listed Company Manual.
- (iii) 1 member will be Lonnie “Bo” Pilgrim.

From and after the Effective Date, the members of the board of directors of Reorganized PPC and its affiliates will be selected and determined in accordance with the provisions of the respective organizational documents and applicable law.

## 2. Officers

As of the Effective Date, the officers of the Debtors shall be the officers of the Reorganized Debtors.

## 3. Consulting Agreement

In connection with the Plan, PPC and Lonnie A. “Bo” Pilgrim (“Mr. Pilgrim”) have entered into a consulting agreement, dated September 16, 2009 (the “Consulting Agreement”), which will become effective on the Effective Date. The salient terms of the Consulting Agreement are as follows:<sup>16</sup>

- Mr. Pilgrim will be compensated for services rendered to Reorganized PPC at a rate of \$1.5 million a year for a term of 5 years;
- Mr. Pilgrim will be subject to customary non-solicitation and non-competition provision; and
- Mr. Pilgrim and his spouse will be provided with medical benefits (or will be compensated for medical coverage) that are comparable in the aggregate to the medical benefits afforded to employees of Reorganized PPC.

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<sup>16</sup> The description of the Consulting Agreement herein is for summary purposes only and in case of any conflict between the Consulting Agreement and this Disclosure Statement, the Consulting Agreement will govern.

#### 4. Management Incentive Plans

##### (a) Short Term Management Incentive Plan

During the Chapter 11 Cases, PPC's board of directors approved, subject to approval of the Plan by the Bankruptcy Court, and in the case of awards that are intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code ("162(m) Awards"), subject to approval by the shareholders, the Short Term Management Incentive Plan — an annual incentive program for the use of the Reorganized Debtors providing for the grant of bonus awards payable upon achievement of specified performance goals (the "STIP"). The STIP permits the grant of 162(m) Awards and bonus awards that are not intended to so qualify. Regular, full-time salaried, exempt employees of the Reorganized Debtors and its affiliates who are selected by the administering committee are eligible to participate in the STIP. The maximum aggregate amount that may be paid pursuant to 162(m) Award to a participant in any fiscal year may not exceed \$10,000,000. Awards may be granted once the STIP becomes effective, but any 162(m) Awards that are granted before the STIP is approved by PPC's stockholders will not be paid unless and until the STIP is approved by the stockholders. The STIP, substantially in the form of Exhibit D-1 of the Plan, is being submitted to stockholders of PPC for separate approval in connection with the Plan. Exhibit D to the Plan sets forth a summary of material terms of the STIP.

##### (b) Long Term Incentive Plan

During the Chapter 11 Cases, PPC's board of directors approved, subject to approval by shareholders of PPC and of the Plan by the Bankruptcy Court, an omnibus long-term incentive plan ("LTIP") for the use of the Reorganized Debtors providing for the grant of a broad range of long-term equity-based and cash-based awards to the Reorganized Debtors' officers and other employees, members of the Reorganized Debtors' board of directors and any consultants to the Reorganized Debtors, as well as to employees of and any consultants to the Reorganized Debtors' subsidiaries. The equity-based awards that may be granted under the LTIP include "incentive stock option," within the meaning of the Internal Revenue Code, non-qualified stock option, stock appreciation rights, restricted stock awards and restricted stock units. Performance-based awards under Section 162(m) of the Internal Revenue Code, which are payable upon satisfaction of pre-established performance goals, may also be granted in order to preserve the deductibility of these awards for federal income tax purposes. The LTIP provides for issuance of an aggregate number of shares of common stock in the Reorganized PPC equal to the lesser of (i) a number of shares equal to the quotient arrived at by dividing \$50,000,000 by the average of the per share closing prices on the Pink OTC Markets, or if the shares are not then traded on the Pink OTC Markets, on the principal exchange, market or quotation system on which the shares are then traded or listed, of the shares during the 10 consecutive trading days ending (and including) the trading immediately preceding the Effective Date, and (ii) 10,000,000 shares, all of which may be issued pursuant to the exercise of "incentive stock options." The LTIP, substantially in the form of Exhibit D-2 of the Plan, is being submitted to stockholders of PPC for separate approval in connection with the Plan. Exhibit D to the Plan sets forth a summary of material terms of the LTIP.

#### **E. Description of Certain Securities to be Issued Pursuant to the Plan**

##### 1. New PPC Common Stock

On the Effective Date, the existing common stock of PPC will be cancelled and the New PPC Common Stock will be issued to holders of Allowed Equity Interests and the Plan Sponsor. The Restated Certificate of Incorporation will authorize Reorganized PPC to issue 800,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, par value \$.01 per

share, with Reorganized PPC's Board of Directors being empowered, without stockholder approval, to cause preferred stock to be issued with such rights, preferences and limitations as it may determine. See Restated Certificate of Incorporation attached to the Plan as Exhibit C.

In the event JBS USA completes the Offering, or any other initial public offering of the JBS USA Common Stock and the offered shares are listed on a national securities exchange, then, at any time during an Exchange Window (as defined below) falling within the period commencing on the date of the closing of the Offering or such other offering and ending two years and 30 days from the Effective Date, JBS USA will have the right to deliver written notice of the mandatory exchange of the New PPC Common Stock to Reorganized PPC at its principal place of business. Upon delivery to Reorganized PPC of notice of the Mandatory Exchange Transaction each share of New PPC Common Stock held by stockholders other than JBS USA will automatically, without any further action on behalf of Reorganized PPC or any of the Exchanged Holders, be transferred to JBS USA in exchange for a number of duly authorized, validly issued, fully paid and non-assessable shares of JBS USA Common Stock equal to the Exchange Offer Ratio (as defined below). The Mandatory Exchange Transaction will be effected in compliance with all applicable laws. An "Exchange Window" is a period of time beginning on the 6th trading day after the first day on which both Reorganized PPC and JBS USA will have each made their respective annual or quarterly reports or earnings releases relating to the immediately preceding fiscal quarter or year, as applicable, and ending on the last day of the fiscal quarter during which the first day of the Exchange Window fell.

The Exchange Offer Ratio is a fraction, the numerator of which is the average volume-weighted daily trading price per share on the principal Exchange for the New PPC Common Stock and the denominator of which is the average volume-weighted daily trading price per share on the principal exchange for the JBS USA Common Stock, in each case for the Measurement Period. The "Measurement Period" is a number of consecutive trading days which is equal to twice the number of consecutive trading days between (i) the first date on which both JBS USA and Reorganized PPC shall have both made their respective annual or quarterly reports or earnings releases and (ii) the date on which JBS USA delivers to Reorganized PPC the notice of the Mandatory Exchange Transaction.

JBS USA believes that the potential exchange of New PPC Common Stock for JBS USA Common Stock under the circumstances provided in the Plan and summarized above will satisfy the requirements of section 1145(a) of the Bankruptcy Code. Under the terms of the SPA, the Debtors and the Plan Sponsor have agreed to seek a finding of the Bankruptcy Court in the Confirmation Order that this potential exchange of New PPC Common Stock will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

## **F. Exit Financing**

The Debtors are working with various lenders and financial institutions to secure an exit facility (the "Exit Facility") that would provide funding for plan distributions and working capital for the Reorganized Debtors. The Exit Facility, as currently contemplated, will provide a senior secured financing facility (the "Exit Credit Facility") in an aggregate principal amount of at least \$1,650,000,000, to include a three-year revolving credit facility, in an aggregate principal amount of at least \$500,000,000 (the "Exit Revolving Credit Facility"); a three year Term A loan facility in an aggregate principal amount of at least \$375,000,000 (the "Term A Loan Facility"); and a five-year term B loan facility in an aggregate principal amount of at least \$775,000,000 (the "Term B Loan Facility"). As contemplated, a portion of the Exit Revolving Credit Facility, of at least \$200,000,000, will be available for the issuance of standby letters of credit and trade letters of credit. On August 11, 2009, the Bankruptcy Court entered an order authorizing the Debtors to enter into certain mandate, commitment and fee letters in connection with the Exit Facility and to pay certain fees related thereto. The terms of the Exit Facility itself will be approved

as part of confirmation of the Plan. The material terms of the Exit Facility are attached to the Plan as Exhibit A and will be filed as part of the Plan Supplement. Any merger or consolidation of Reorganized PPC with the Plan Sponsor will require consent of the required lenders to the Exit Credit Facility or a refinancing of the Exit Facility.

## VIII.

### CERTAIN RISK FACTORS

HOLDERS OF EQUITY INTERESTS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT AND RELATED DOCUMENTS, REFERRED TO OR INCORPORATED BY REFERENCE IN THIS DISCLOSURE STATEMENT, PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THIS SECTION PROVIDES INFORMATION REGARDING POTENTIAL RISKS IN CONNECTION WITH THE PLAN, THE FINANCIAL PROJECTIONS AND OTHER RISKS THAT COULD IMPACT THE REORGANIZED DEBTORS' FUTURE FINANCIAL CONDITION AND OPERATIONS, RISKS RELATING TO THE FINANCIAL AND OPERATIONAL RESULTS OF THE PLAN SPONSOR AND RISKS RELATING TO THE JBS COMMON STOCK. THESE FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

#### A. Certain Risks Related to the Plan

##### 1. *The Debtors may not be able to obtain confirmation of the Plan*

The Debtors cannot ensure that they will receive the requisite Plan acceptances to confirm the Plan. Even if the Debtors receive the requisite Plan acceptances, the Debtors cannot ensure that the Bankruptcy Court will confirm the Plan. The adequacy of the Disclosure Statement or the balloting procedures and results may be challenged as not being in compliance with the Bankruptcy Code, and even if the Bankruptcy Court determined that the Disclosure Statement and the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found that any of the statutory requirements for confirmation had not been met. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things: (i) a finding by a bankruptcy court that a plan “does not unfairly discriminate” and is “fair and equitable” with respect to any non-accepting classes, (ii) confirmation is not likely to be followed by a liquidation or a need for further financial reorganization and (iii) the value of distributions to non-accepting holders of claims and interests within a particular class under the plan will not be less than the value of distributions such holders would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code. While there can be no assurance that these requirements will be met, the Debtors believe that the Plan does not unfairly discriminate and is fair and equitable, will not be followed by a need for further financial reorganization, and that non-accepting holders within each Class under the Plan will receive distributions at least as great as would be received following a liquidation under chapter 7 of the Bankruptcy Code.

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes. In addition, although the Debtors believe that the Effective Date will occur on or before December 31, 2009, there can be no assurance as to such timing.

2. Undue delay in confirmation of the Plan may significantly disrupt operations of the Debtors

The impact a continuation of the Chapter 11 Cases may have on the operations of the Debtors and their businesses cannot be accurately predicted or quantified. Since the filing of the Chapter 11 Cases, the Debtors have suffered disruptions in operations, including losses of customers and suppliers. The continuation of the Chapter 11 Cases, particularly if the Plan is not approved or confirmed in the time frame currently contemplated, could further adversely affect the Debtors' operations and relationships with the Debtors' customers, vendors, suppliers and employees. If confirmation of the Plan does not occur expeditiously, the Chapter 11 Cases could result in, among other things, increases in costs, professional fees and similar expenses. In addition, prolonged Chapter 11 Cases may make it more difficult to retain and attract management and other key personnel, and would require senior management to spend a significant amount of time and effort dealing with the Debtors' financial reorganization instead of focusing on the operation of the Debtors' businesses.

3. Holders of Equity Interests in PPC may face significant losses in the event of a subsequent liquidation or financial reorganization by the Debtors

The management of the Debtors believes that, if it is permitted to implement its business plan and if the Debtors meet their current financial projections as updated by the subsequently identified variances discussed herein, the confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors. Nevertheless, there can be no assurance that such liquidation will not occur or that the need for such financial reorganization will not arise. Substantially all of the unencumbered assets of the Debtors will be pledged to secure the Debtors' obligations under the Exit Facility. Accordingly, after consummation of the Plan, if the Debtors were to be liquidated or if the need for a further financial reorganization were to arise, the unencumbered assets of the Debtors likely would be insufficient to provide the holders of Equity Interests in PPC with any material recovery.

4. The satisfaction or waiver of the closing conditions to the SPA is a condition precedent for the confirmation of the Plan and may prevent or delay confirmation of the Plan if such conditions are not satisfied or waived as provided in the SPA

The Plan Sponsor has entered into the SPA and has agreed to purchase 64% of the New PPC Common Stock as provided therein. However, the SPA is subject a number of conditions precedent that must be satisfied or waived by the parties thereto. If any of the closing conditions in the SPA are not satisfied or waived, the Debtors will not be able to meet a condition precedent for confirmation of the Plan. The Debtors can provide no assurance that the closing conditions in the SPA will be satisfied or, if not satisfied, waived by the parties thereto.

5. If the Plan Sponsor's ownership percentage in the Reorganized PPC increases to 90% or more there will be no Equity Directors on the Reorganized PPC's board of directors.

Pursuant to the terms of the Restated Certificate of Incorporation, the Plan Sponsor has the right to elect six directors to the Reorganized PPC's board of directors, with the minority stockholders

having the right to elect two Equity Directors (as defined in the Restated Certificate of Incorporation). If the Plan Sponsor's ownership percentage in the Reorganized PPC increases to 90% or above, the minority stockholders will no longer have the right to elect the Equity Directors.

## **B. Risks Related to the Capitalization of the Reorganized Debtors**

### **1. The Reorganized Debtors' future financial and operating flexibility may be adversely affected by their significant leverage as a result of the Exit Facility**

The Reorganized Debtors will have substantial indebtedness, which could adversely affect their financial condition. On the Effective Date, after giving effect to the transactions contemplated by the Plan, the Reorganized Debtors will, on a consolidated basis, have approximately \$1.4 billion in secured indebtedness and will have the ability to borrow approximately \$0.3 billion under the Exit Facility on the Effective Date, unless such requirement is waived by the lenders party thereto. Significant amounts of cash flow will be necessary to make payments of interest and repay the principal amount of such indebtedness.

The degree to which the Reorganized Debtors are leveraged could have important consequences because:

- It could affect the Reorganized Debtors' ability to satisfy their obligations under the Exit Facility;
- A substantial portion of the Reorganized Debtors' cash flow from operations will be required to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- The Reorganized Debtors' ability to obtain additional financing and to fund working capital, capital expenditures and other general corporate requirements in the future may be impaired;
- The Reorganized Debtors may be more highly leveraged than some of their competitors, which may place the Reorganized Debtors at a competitive disadvantage;
- The Reorganized Debtors' flexibility in planning for, or reacting to, changes in their business may be limited;
- It may limit the Reorganized Debtors' ability to pursue acquisitions and sell assets; and
- It may make the Reorganized Debtors more vulnerable in the event of another downturn in their business or the economy in general.

The Reorganized Debtors' ability to make payments on and to refinance their debt, including the Exit Facility, will depend on their ability to generate cash in the future. This, to a certain extent, is subject to various business factors (including, among others, the commodity prices of feed ingredients and chicken) and general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the control of the Reorganized Debtors.



There can be no assurance that the Reorganized Debtors will be able to generate sufficient cash flow from operations or that future borrowings will be available under credit facilities in an amount sufficient to enable the Reorganized Debtors to pay their debt obligations, including obligations under the Exit Facility, or to fund their other liquidity needs. The Reorganized Debtors may need to refinance all or a portion of their debt on or before maturity. There can be no assurance that the Reorganized Debtors will be able to refinance any of their debt on commercially reasonable terms or at all.

2. *The covenants in the Exit Facility could hinder the Reorganized Debtors' business activities and operations*

The Exit Facility will contain various provisions that may limit the Reorganized Debtors' ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain restricted payments, consummate certain asset sales, enter into certain transactions with affiliates, merge, consolidate and/or sell or dispose of all or substantially all of its assets. In addition, it is expected that the Exit Facility will require the Reorganized Debtors and certain of their subsidiaries to maintain certain financial ratios and meet certain tests, including leverage and interest coverage ratios. Covenants in the Exit Facility will also require the Reorganized Debtors to use a portion of their cash flow and the proceeds they receive from certain asset sales and specified debt or equity issuances and upon the occurrence of other events to repay outstanding borrowings under the Exit Facility. These covenants may have important consequences on the Debtors' operations, including, without limitation, restricting their ability to obtain additional financing and potentially limiting their ability to adjust to rapidly changing market conditions.

The Debtors cannot assure you that the Reorganized Debtors and certain of their subsidiaries will be able to comply with the provisions of their respective debt instruments, including, without limitation, the financial covenants in the Exit Facility. Any failure to comply with the restrictions of the Exit Facility or any other such subsequent financing agreements may result in an event of default. An event of default may allow the creditors to accelerate the related debt as well as any other debt to which a cross-acceleration or cross-default provision applies. The Debtors cannot provide assurance that the Reorganized Debtors and certain of their subsidiaries' assets or cash flow would be sufficient to fully repay borrowings under the outstanding debt instruments, either upon maturity or if accelerated upon an event of default, or that they would be able to refinance or restructure the payments on such debt. If the Reorganized Debtors are unable to repay amounts outstanding under the Exit Facility when due, the lenders thereunder could, subject to the terms of the relevant agreements, seek to sell or otherwise transfer the assets that are pledged to secure the indebtedness outstanding under those facilities and notes. The Exit Facility will be secured by substantially all of the Assets of PPC.

3. *The Debtors may not be able to list the New PPC Common Stock on a national securities exchange or an active market for shares of New PPC Common Stock may not develop*

Prior to the Petition Date, PPC Common Stock was listed on the New York Stock Exchange, or the NYSE. On the Petition Date, PPC Common Stock was delisted from the NYSE and has traded on an electronic quotations system, such as the system known as the "Pink Sheets" during the Chapter 11 Cases. PPC intends to seek to list the New PPC Common Stock on a national securities exchange in connection with the effectiveness of the Plan. However, there is no assurance that Reorganized PPC, or the New PPC Common Stock, will comply with the listing requirements of a national securities exchange. In addition, even if the Debtors are able to list New PPC Common Stock on a national securities exchange, there can be no assurance that a regular trading market for New PPC Common Stock will develop, or if a trading market does develop, that it will be sustainable. Pursuant to the SPA, the Plan Sponsor and Reorganized PPC are required to use their commercially reasonable efforts

to cause the New PPC Common Stock to comply with the continued listing standards of such national securities exchange so that the New PPC Common Stock will continue to be listed and traded thereon. However, the Plan Sponsor has no obligation to ensure that the share price or the market value of the shares of New PPC Common Stock are sufficient to maintain the listing of such shares. In addition, under certain circumstances and with the consent of the required lenders under the Exit Facility, Reorganized PPC may be able to repurchase New PPC Common Stock, which may reduce the liquidity of the New PPC Common Stock. There can be no assurance that there will be sufficient liquidity in the market for New PPC Common Stock, or that it will be possible to sell shares of New PPC Common Stock when desired, or at all.

4. The purchase price paid by the Plan Sponsor for the New PPC Common Stock is not intended to represent the trading or market value of New PPC Common Stock and there is no assurance that a holder will be able to sell the New PPC Common Stock at such a price or at all.

The determination of the purchase price of the New PPC Common Stock was based on the Plan Sponsor's and the Debtors' assessments of the reorganized Pilgrim's Pride's financial projections, business prospects, business opportunities, risks and other factors, as applicable, and was not intended to represent the trading values of New PPC Common Stock in public or private markets. Several factors may cause the price of New PPC Common Stock to vary including those discussed below in "Risks Related to the Financial and Operational Results of the Reorganized Debtors." Additionally, the stock market has experienced extreme volatility in recent months and this volatility has often been unrelated to the operating performance of particular companies. All of these factors, among others, may cause the price of the New PPC Common Stock to fluctuate after trading commences and it may not be possible to sell the New PPC Common Stock at such a price, or at all.

5. The Plan Sponsor will hold a majority of the New PPC Common Stock and will have the ability to control the vote on most matters brought before the holders of New PPC Common Stock

Following consummation of the Plan, the Plan Sponsor will hold a majority of the shares and voting power of the New PPC Common Stock and will be entitled to appoint a majority of the members of the board of directors of the Reorganized PPC. As a result, the Plan Sponsor will, subject to restrictions on its voting power and actions in the Stockholders Agreement and the Restated Certificate of Incorporation, have the ability to control the management, policies and financing decisions of the Reorganized Debtors, elect a majority of the members of Reorganized PPC's board of directors at the annual meeting and control the vote on most matters coming before the holders of New PPC Common Stock. For more information about the Plan Sponsor, see Section IV(B). For specific risk factors regarding the Plan Sponsor, including its status as a controlled company, see the "Risks Related to the Financial and Operational Results of the Plan Sponsor" below.

6. In the event the Plan Sponsor completes an initial public offering, all of the then-outstanding shares of New PPC Common Stock may be exchanged, at the option of the Plan Sponsor, for shares of common stock of the Plan Sponsor

In connection with the consummation of the Plan, holders of Allowed Equity Interests will receive shares of common stock of Reorganized PPC in exchange for their existing shares of PPC Common Stock. In the event JBS USA completes the Offering, or any other initial public offering of the JBS USA Common Stock and the offered shares are listed on a national securities exchange, then, at any time during an Exchange Window falling within the period commencing on the date of the closing of the Offering or such other offering and ending two years and 30 days from the Effective Date, JBS USA will

have the right to deliver written notice of the mandatory exchange of the New PPC Common Stock to Reorganized PPC at its principal place of business. Upon delivery to Reorganized PPC of notice of the Mandatory Exchange Transaction each share of New PPC Common Stock held by stockholders other than JBS USA will automatically, without any further action on behalf of Reorganized PPC or any of the Exchanged Holders, be transferred to JBS USA in exchange for a number of duly authorized, validly issued, fully paid and non-assessable shares of JBS USA Common Stock equal to the Exchange Offer Ratio. The Mandatory Exchange Transaction will be effected in compliance with all applicable laws.

Thus, stockholders should carefully read and consider the information provided in Section IV(B) and the risk factors contained below regarding the Plan Sponsor and the JBS Common Stock, as the shares of New PPC Common Stock may in the future be exchanged for shares of JBS USA Common Stock without the consent or election of such stockholder.

The SPA does not require the Plan Sponsor to maintain a listing for JBS USA Common Stock in the event that it commences the Mandatory Exchange Transaction. There can be no assurance that there will be sufficient liquidity in the market for JBS USA Common Stock, that it will be possible to sell shares of JBS USA Common Stock when desired at a reasonable price or at all.

For more information about the Plan Sponsor and its business, copies of the Plan Sponsor's Registration Statement on Form S-1 filed with the SEC can be obtained at [www.sec.gov](http://www.sec.gov). These documents were prepared by, and are the responsibility of JBS. The Debtors disclaim any responsibility for the accuracy or completeness of these documents.

### **C. Risks Related to the Financial and Operational Results of the Reorganized Debtors**

1. *The Chapter 11 Cases may have negatively affected the businesses of the Reorganized Debtors, including relationships with certain customers, suppliers and vendors, which could adversely impact the Reorganized Debtors' future financial and operating results*

Due to the disruptions caused by the Chapter 11 Cases, certain of the Debtors' relationships with customers, suppliers and vendors may have been adversely affected and/or terminated. Customers, suppliers or vendors may have entered into alternate relationships with other counterparties or modified their relationship with the Debtors due to performance issues or concerns. In some instances, customers, suppliers and vendors are holders of Claims in connection with the Chapter 11 Cases. The effect of the bankruptcy process and the resolution of such Claims against the Debtors (including the confirmation of the Plan) may have adversely affected or may in the future adversely affect the relationships between such parties and the Debtors. Changes in relationships with customers, suppliers and vendors could have a material adverse effect on the Reorganized Debtors' financial and operating results.

2. *The Debtors' actual financial results may vary significantly from the financial projections included in this Disclosure Statement*

The financial projections included in this Disclosure Statement are dependent upon the successful implementation of the business plan of the Debtors and the validity of the numerous assumptions contained therein. The significant assumptions underlying the projections, including certain updates to those assumptions, are discussed in greater detail in Section VII(B).

Many of these assumptions are beyond the control of the Debtors and may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the projections may adversely affect the financial results of the Debtors. Although the Debtors believe

that the projections and assumptions as updated by the subsequently identified variances, are reasonable, variations between the actual financial results and those projected may be material.

3. *The expected synergies between the Plan Sponsor and PPC may not materialize*

While the Plan Sponsor has significant acquisition experience and historically has been able to realize substantial benefits through synergies, the Plan Sponsor may not be able to fully achieve all of the anticipated synergistic gains of the PPC transaction within the time frames expected. The combined company's ability to realize the anticipated benefits of the acquisition will depend, to a large extent, on the ability of JBS USA to integrate the businesses of Reorganized PPC with JBS USA. The combination of two independent companies is a complex, costly and time-consuming process. As a result, the combined company will be required to devote significant management attention and resources to integrating the business practices and operations of JBS USA and Reorganized PPC. The integration process and realizing the benefits of the synergies will be additionally challenging so long as Reorganized PPC remains an independent, publicly-traded entity. The integration process may disrupt the business of either or both of the companies and, if implemented ineffectively, would preclude realization of the full benefits expected by JBS USA. The failure of the combined company to meet the challenges involved in integrating successfully the operations of JBS USA and Reorganized PPC or otherwise to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, the activities of the combined company and could seriously harm its results of operations. In addition, the overall integration of the two companies may result in unanticipated problems, expenses, liabilities, competitive responses, loss of customer and supplier relationships, and diversion of management's attention, and may cause the New PPC Common Stock price to decline. The difficulties of combining the operations of the companies include, among others:

- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- maintaining employee morale and retaining key employees;
- the diversion of management's attention from ongoing business concerns;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems; and
- managing tax costs or inefficiencies associated with integrating the operations of the combined company.

In addition, even if the operations of JBS USA and Reorganized PPC are integrated successfully, the combined company may not realize the full benefits of the transaction, including the synergies, cost savings or sales or growth opportunities that JBS USA expects. These benefits may not be achieved within the anticipated time frame, or at all. As a result, while JBS USA expects and believes that the transaction will result in substantial benefits from the synergies outlined above, it cannot make any affirmative guarantees that these results will be fully realized within the anticipated time frame given the risks involved.

The views regarding any synergies that may be created through the Plan Sponsor Transaction are the views of the Plan Sponsor and have not been independently verified by either the Debtors or their advisors.

4. Industry cyclicalities can affect earnings of the Reorganized Debtors, especially due to fluctuations in commodity prices of feed ingredients and chicken.

Profitability in the chicken industry is materially affected by the commodity prices of feed ingredients and chicken, which are determined by supply and demand factors. As a result, the chicken industry is subject to cyclical earnings fluctuations.

The production of feed ingredients is positively or negatively affected primarily by the global level of supply inventories and demand for feed ingredients, the agricultural policies of the United States and foreign governments and weather patterns throughout the world. In particular, weather patterns often change agricultural conditions in an unpredictable manner. A significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and the Reorganized Debtors' ability to obtain feed ingredients, grow chickens or deliver products.

The cost of corn and soybean meal, the Debtors' primary feed ingredients, increased significantly from August 2006 to July 2008, before moderating in 2009, and there can be no assurance that the price of corn or soybean meal will not significantly rise again as a result of, among other things, increasing demand for these products around the world and alternative uses of these products, such as ethanol and biodiesel production.

High feed ingredient prices have had, and may continue to have, a material adverse effect on the Reorganized Debtors' operating results, which has resulted in, and may continue to result in, additional non-cash expenses due to impairment of the carrying amounts of certain assets. The Debtors periodically seek, to the extent available, to enter into advance purchase commitments or financial derivative contracts for the purchase of feed ingredients in an effort to manage feed ingredient costs. The use of such instruments may not be successful.

5. Outbreaks of livestock diseases in general and poultry diseases in particular, including avian influenza, can significantly affect the Reorganized Debtors' ability to conduct their operations and demand for their products.

The Debtors take precautions designed to ensure that their flocks are healthy and that their processing plants and other facilities operate in a sanitary and environmentally-sound manner. However, events beyond the Debtors' control, such as the outbreaks of disease, either in their own flocks or elsewhere, could significantly affect demand for their products or their ability to conduct their operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of the Reorganized Debtors' fresh chicken or other products to or from their suppliers, facilities or customers, or require them to destroy one or more of their flocks. This could also result in the cancellation of orders by the Reorganized Debtors' customers and create adverse publicity that may have a material adverse effect on their ability to market their products successfully and on the business, reputation and prospects of the Reorganized Debtors.

During the first half of 2006, there was substantial publicity regarding a highly pathogenic strain of avian influenza, known as H5N1, which has been affecting Asia since 2002 and which has also been found in Europe and Africa. It is widely believed that H5N1 is being spread by migratory birds, such as ducks and geese. There have also been some cases where H5N1 is believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease.

Although highly pathogenic H5N1 has not been identified in North America, there have been outbreaks of low pathogenic strains of avian influenza in North America, and in Mexico outbreaks

of both high and low-pathogenic strains of avian influenza are a fairly common occurrence. Historically, the outbreaks of low pathogenic avian influenza have not generated the same level of concern, or received the same level of publicity or been accompanied by the same reduction in demand for poultry products in certain countries as that associated with the highly pathogenic H5N1 strain. Accordingly, even if the highly pathogenic H5N1 strain does not spread to North or Central America, there can be no assurance that it will not materially adversely affect demand for North or Central American produced poultry internationally and/or domestically, and, if it were to spread to North or Central America, there can be no assurance that it would not significantly affect the ability of the Reorganized Debtors to conduct their operations and/or demand for their products, in each case in a manner having a material adverse effect on the business, reputation and/or prospects of the Reorganized Debtors.

6. *If the Reorganized Debtors' poultry products become contaminated, they may be subject to product liability claims and product recalls.*

Poultry products may be subject to contamination by disease-producing organisms, or pathogens, such as *Listeria monocytogenes*, *Salmonella* and generic *E.coli*. These pathogens are generally found in the environment, and, as a result, there is a risk that they, as a result of food processing, could be present in the Reorganized Debtors' processed poultry products. These pathogens can also be introduced as a result of improper handling at the further processing, foodservice or consumer level. These risks may be controlled, although not eliminated, by adherence to good manufacturing practices and finished product testing. The Reorganized Debtors will have little, if any, control over proper handling once the product has been shipped. Illness and death may result if the pathogens are not eliminated at the further processing, foodservice or consumer level. Even an inadvertent shipment of contaminated products is a violation of law and may lead to increased risk of exposure to product liability claims, product recalls and increased scrutiny by federal and state regulatory agencies and may have a material adverse effect on the business, reputation and prospects of the Reorganized Debtors.

In October 2002, one product sample produced in the PPC's Franconia, Pennsylvania facility that had not been shipped to customers tested positive for *Listeria*. PPC later received information from the USDA suggesting environmental samples taken at the facility had tested positive for both the strain of *Listeria* identified in the product and a strain having characteristics similar to those of the strain identified in a Northeastern *Listeria* outbreak. As a result, PPC voluntarily recalled all cooked deli products produced at the plant from May 1, 2002 through October 11, 2002. PPC carried insurance designed to cover the direct recall related expenses and certain aspects of the related business interruption caused by the recall.

7. *Product liability claims or product recalls can adversely affect the business reputation of the Reorganized Debtors and expose them to increased scrutiny by federal and state regulators.*

The packaging, marketing and distribution of food products entail an inherent risk of product liability and product recall and the resultant adverse publicity. The Reorganized Debtors may be subject to significant liability if the consumption of any of their products causes injury, illness or death. The Reorganized Debtors could be required to recall certain of their products in the event of contamination or damage to the products. In addition to the risks of product liability or product recall due to deficiencies caused by the production or processing operations of the Reorganized Debtors, the same risks may occur if any third party tampers with their products. There can be no assurance that the Reorganized Debtors will not be required to perform product recalls, or that product liability claims will not be asserted against them, in the future. Any claims that may be made may create adverse publicity that would have a material adverse effect on the ability of the Reorganized Debtors to market their products successfully or on their business, reputation, prospects, financial condition and results of operations.

If the Reorganized Debtors' poultry products become contaminated, they may be subject to product liability claims and product recalls. There can be no assurance that any litigation or reputational injury associated with product recalls will not have a material adverse effect on the ability of the Reorganized Debtors to market their products successfully or on their business, reputation, prospects, financial condition and results of operations.

8. The Reorganized Debtors are exposed to risks relating to product liability, product recall, property damage and injuries to persons for which insurance coverage is expensive, limited and potentially inadequate.

The Reorganized Debtors' business operations will entail a number of risks, including risks relating to product liability claims, product recalls, property damage and injuries to persons. The Debtors currently maintain insurance with respect to certain of these risks, including product liability insurance, property insurance, workers compensation insurance, business interruption insurance and general liability insurance, but in many cases such insurance is expensive, difficult to obtain and no assurance can be given that such insurance can be maintained by Reorganized Debtors in the future on acceptable terms, or in sufficient amounts to protect the Reorganized Debtors against losses due to any such events, or at all. Moreover, even though the Reorganized Debtors' insurance coverage may be designed to protect them from losses attributable to certain events, it may not adequately protect them from liability and expenses incurred in connection with such events. For example, the losses attributable to the PPC's October 2002 recall of cooked deli products produced at one of their facilities significantly exceeded available insurance coverage. Additionally, in the past, two of the Debtors' insurers encountered financial difficulties and were unable to fulfill their obligations under the insurance policies as anticipated and, separately, two of the Debtors' other insurers contested coverage with respect to claims covered under policies purchased, forcing the Debtors to litigate the issue of coverage before being able to collect under these policies.

9. Competition in the chicken industry with other vertically integrated poultry companies may make the Reorganized Debtors unable to compete successfully in these industries, which could adversely affect their business.

The chicken industry is highly competitive. In both the U.S. and Mexico, the Reorganized Debtors will primarily compete with other vertically integrated chicken companies.

In general, the competitive factors in the US chicken industry include:

- Price;
- Product quality;
- Product development;
- Brand identification;
- Breadth of product line; and
- Customer service.

Competitive factors vary by major market. In the foodservice market, competition is based on consistent quality, product development, service and price. In the US retail market, the Debtors believe that competition is based on product quality, brand awareness, customer service and price.

Further, there is some competition with non-vertically integrated further processors in the prepared chicken business. In addition, the filing of the Chapter 11 Cases and the associated risks and uncertainties may be used by competitors in an attempt to divert existing customers or may discourage future customers from purchasing products under long-term arrangements.

In Mexico, where product differentiation has traditionally been limited, product quality and price have been the most critical competitive factors. The North American Free Trade Agreement eliminated tariffs for chicken and chicken products sold to Mexico on January 1, 2003. However, in July 2003, the US and Mexico entered into a safeguard agreement with regard to imports into Mexico of chicken leg quarters from the US. Under this agreement, a tariff rate for chicken leg quarters of 98.8% of the sales price was established. On January 1, 2008, the tariff was eliminated. In connection with the elimination of those tariffs in Mexico, increased competition from chicken imported into Mexico from the US may have a material adverse effect on the Mexican chicken industry in general, and on the Mexican operations of the Reorganized Debtors in particular.

10. *The loss of one or more of the largest customers could adversely affect the business of the Reorganized Debtors.*

The Debtors' two largest customers accounted for approximately 16% of their net sales in 2008, and the Debtors' largest customer, Wal-Mart Stores Inc., accounted for 11% of their net sales. The filing of the Chapter 11 Cases and the associated risks and uncertainties may have affected the Debtors' customers' perception of their business and increased their risk of losing key customers. The Reorganized Debtors' business could suffer significant setbacks in revenues and operating income if they lost one or more of the largest customers, or if their customers' plans and/or markets should change significantly.

11. *The foreign operations of the Reorganized Debtors pose special risks to their business and operations.*

The Reorganized Debtors will continue to have significant operations and assets located in Mexico and may participate in or acquire operations and assets in other foreign countries in the future. Foreign operations are subject to a number of special risks, including among others:

- Currency exchange rate fluctuations;
- Trade barriers;
- Exchange controls;
- Expropriation; and
- Changes in laws and policies, including those governing foreign-owned operations.

Currency exchange rate fluctuations have adversely affected the Debtors in the past. Exchange rate fluctuations or one or more other risks may have a material adverse effect on the business or operations of the Reorganized Debtors in the future.

The Reorganized Debtors' operations in Mexico will be conducted through subsidiaries organized under the laws of Mexico. The Reorganized Debtors may rely in part on intercompany loans and distributions from their subsidiaries to meet obligations. Claims of creditors of subsidiaries, including trade creditors, will generally have priority as to the assets of the Reorganized Debtors' subsidiaries over claims by the Reorganized Debtors. Additionally, the ability of the Reorganized Debtors' Mexican



subsidiaries to make payments and distributions to the Reorganized Debtors will be subject to, among other things, Mexican law. In the past, these laws have not had a material adverse effect on the ability of the Mexican subsidiaries to make these payments and distributions. However, laws such as these may have a material adverse effect on the ability of the Reorganized Debtors' Mexican subsidiaries to make these payments and distributions in the future.

12. Disruptions in international markets and distribution channels could adversely affect the business of the Reorganized Debtors.

Historically, the Debtors have targeted international markets to generate additional demand for chicken dark meat, specifically leg quarters, which are a natural by-product of their US operations, given their concentration on prepared chicken products and the US customers' general preference for white meat. As part of this initiative, the Debtors have created a significant international distribution network into several markets, including Eastern Europe, including Russia; the Far East, including China; and Mexico. The success of the Reorganized Debtors in these markets could be, and the success of the Debtors in recent periods has been, adversely affected by disruptions in poultry export markets. These disruptions are often caused by restrictions on imports of US-produced poultry products imposed by foreign governments for a variety of reasons, including the protection of their domestic poultry producers and allegations of consumer health issues, and may also be caused by outbreaks of disease such as avian influenza, either in the flocks of the Reorganized Debtors or elsewhere in the world, and resulting changes in consumer preferences. There can be no assurance that one or more of these or other disruptions in the international markets and distribution channels will not adversely affect the business of the Reorganized Debtors.

13. Regulation, present and future, is a constant factor affecting the business of the Reorganized Debtors.

The operations of the Reorganized Debtors will continue to be subject to federal, state and local governmental regulation, including in the health, safety and environmental areas. The Reorganized Debtors anticipate increased regulation by various agencies concerning food safety, the use of medication in feed formulations and the disposal of poultry by-products and wastewater discharges.

Also, changes in laws or regulations or the application thereof may lead to government enforcement actions and the resulting litigation by private litigants. The Reorganized Debtors are aware of an industry-wide investigation by the Wage and Hour Division of the US Department of Labor to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on such activities such as donning and doffing work equipment. PPC has been named a defendant in a number of related suits brought by employees. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, it is possible that the Reorganized Debtors may be subject to additional employee claims.

Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect the business or operations of the Reorganized Debtors in the future.

14. New immigration legislation or increased enforcement efforts in connection with existing immigration legislation could cause the costs of doing business to increase, cause the Reorganized Debtors to change the way they conduct business or otherwise disrupt their operations.

Immigration reform continues to attract significant attention in the public arena and the United States Congress. If new federal immigration legislation is enacted or if states in which the

Reorganized Debtors do business enact immigration laws, such laws may contain provisions that could make it more difficult or costly for the Reorganized Debtors to hire United States citizens and/or legal immigrant workers. In such case, the Reorganized Debtors may incur additional costs to run their business or may have to change the way they conduct their operations, either of which could have a material adverse effect on business, operating results and financial condition of the Reorganized Debtors. Also, despite the Debtors' past and continuing efforts to hire only United States citizens and/or persons legally authorized to work in the United States, the Reorganized Debtors may be unable to ensure that all of their employees are United States citizens and/or persons legally authorized to work in the United States. US Immigration and Customs Enforcement has recently been investigating identity theft within the Debtors' workforce. With their cooperation, during 2008 US Immigration and Customs Enforcement arrested approximately 350 of their employees believed to have engaged in identity theft at five of their facilities. No assurances can be given that further enforcement efforts by governmental authorities will not disrupt a portion of the Reorganized Debtors' workforce or their operations at one or more facilities, thereby negatively impacting the business of the Reorganized Debtors.

15. Loss of essential employees could have a significant negative impact on the Reorganized Debtors' business.

The success of the Reorganized Debtors is largely dependent on the skills, experience, and efforts of their management and other employees. The deteriorating financial performance of PPC, along with the Chapter 11 Cases, creates uncertainty that could lead to an increase in unwanted attrition. The loss of the services of one or more members of the senior management of the Debtors or of numerous employees with essential skills could have a negative effect on the business, financial condition and results of operations of the Reorganized Debtors. The proposed acquisition of the New PPC Stock by the Plan Sponsor would constitute a change in control of PPC under the terms of change in control agreements between PPC and its executive officers and certain of its key employees. The change in control of PPC may create difficulties for PPC in retaining the services of these officers and employees, which may negatively impact PPC's business and the integration of the Plan Sponsor's and PPC's operations. If the Debtors are not able to attract talented, committed individuals to fill vacant positions when needs arise, it may adversely affect the ability of the Reorganized Debtors to achieve their business objectives.

16. Extreme weather or natural disasters could negatively impact the business of the Reorganized Debtors.

Extreme weather or natural disasters, including droughts, floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of the Reorganized Debtors' flocks, production or availability of feed ingredients, or interfere with operations due to power outages, fuel shortages, damage to production and processing facilities or disruption of transportation channels, among other things. Any of these factors could have an adverse effect on the financial results of the Reorganized Debtors.

**D. Risks Related to the JBS Common Stock**

1. The Plan Sponsor is controlled by JBS S.A., which is a publicly traded company in Brazil, whose interests may conflict with the holders of JBS Common Stock.

The Plan Sponsor is a wholly owned indirect subsidiary of JBS S.A., a publicly traded company in Brazil. After the consummation of the initial public offering of the JBS USA Common Stock, it is expected that JBS S.A. will indirectly own a majority of the JBS Common Stock. The Batista family indirectly owns and controls approximately 50.1% of the voting equity capital of JBS S.A. Prior to the

initial public offering of the JBS Common Stock, all of the Plan Sponsor's directors and its president and chief executive officer are members of the Batista family. Members of the Batista family are also officers of JBS S.A. Accordingly, JBS S.A. is, and will continue to be, able to exercise significant influence over the Plan Sponsor's business policies and affairs, including the composition of its board of directors, which has the authority to direct business and appoint and remove officers, and over any action requiring the approval of stockholders, including the adoption of amendments to the certificate of incorporation and bylaws, which govern the rights attached to the shares of JBS Common Stock, and the approval of mergers or sales of substantially all assets.

JBS S.A. and its subsidiaries comprise the largest exporter of canned beef in the world. With respect to business opportunities relating to customers or markets which would otherwise be available to both the Plan Sponsor and JBS S.A.'s other subsidiaries, JBS S.A. may not permit the Plan Sponsor to pursue those opportunities or JBS S.A.'s other subsidiaries may directly compete with the Plan Sponsor for those opportunities. For example, in January 2007, JBS S.A. acquired SB Holdings and its subsidiaries, which comprise one of the largest distributors of processed beef in the United States. This acquisition provided JBS S.A. (and not the Plan Sponsor) with access to the processed beef market in the United States through two distribution centers located in Fort Lauderdale, Florida and Newport Beach, California. JBS S.A. is a public company in Brazil, and therefore, its directors have their own independent fiduciary duties and their interests may conflict or compete with those of the Plan Sponsor.

The concentration of ownership of shares of JBS Common Stock may also delay, defer or even prevent an acquisition by a third party or other change of control of the Plan Sponsor in a transaction that might otherwise give holders of JBS Common Stock the opportunity to realize a premium over the then-prevailing market price of the JBS Common Stock, even if stockholders perceive such transaction to be in the best interests of minority stockholders. This concentration of ownership may also adversely affect the stock price of the JBS Common Stock.

2. *The Plan Sponsor's directors who have relationships with its controlling stockholder may have conflicts of interest with respect to matters involving the Plan Sponsor.*

Upon completion of the initial public offering of the JBS Common Stock, the majority of the Plan Sponsor's directors are expected to be affiliated with JBS S.A. These persons will have fiduciary duties to both the Plan Sponsor and JBS S.A. As a result, they may have real or apparent conflicts of interest on matters affecting both the Plan Sponsor and JBS S.A., which in some circumstances may have interests adverse to those of the Plan Sponsor. It may also limit the ability of these directors to participate in consideration of certain matters. In addition, as a result of JBS S.A.'s ownership interest, conflicts of interest could arise with respect to transactions involving business dealings between the Plan Sponsor and JBS S.A. including, but not limited to, potential acquisitions of businesses or properties, the issuance of additional securities, the payment of dividends and other matters.

3. *The Plan Sponsor is expected to be a "controlled company" within the meaning of the NYSE rules, and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.*

Upon completion of the initial public offering of JBS Common Stock, JBS S.A. will own more than 50% of the total voting power of the shares of JBS Common Stock and the Plan Sponsor will be a "controlled company" under the NYSE, corporate governance standards. As a controlled company, exemptions under the NYSE standards will free the Plan Sponsor from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

- that a majority of the Plan Sponsor’s board of directors consists of “independent directors,” as defined under the rules of the NYSE;
- that the Plan Sponsor has a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- that the Plan Sponsor has a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

Accordingly, for so long as the Plan Sponsor is a “controlled company,” holders of shares of JBS Common Stock will not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

4. *There has been no prior public market for the JBS Common Stock and the trading price of the JBS Common Stock may be adversely affected if an active trading market does not develop.*

Prior to the any Offering of the JBS Common Stock, there will have been no public market for the JBS Common Stock, and an active trading market may not develop or be sustained. There can be no assurance that investor interest will lead to the development of an active trading market in shares of the JBS Common Stock or whether such a market will be sustained. The initial offering price of JBS Common Stock in any Offering will be determined through the Plan Sponsor’s negotiations with the underwriters and may not be indicative of the market price of the JBS Common Stock after the initial public offering. The market price of shares of JBS Common Stock may decline below the initial public offering price, and holders of JBS Common Stock may not be able to sell their shares of JBS Common Stock at or above the initial public offering price, or at all.

5. *The stock price of the JBS Common Stock may be volatile, and holders of JBS Common Stock may be unable to resell their shares at or above the offering price or at all.*

The market price of the JBS Common Stock after the initial public offering will be subject to significant fluctuations in response to, among other factors, variations in the Plan Sponsor’s operating results and market conditions specific to its industry. The combination of the relatively limited number of locations that the Plan Sponsor operates in and the significant investment associated with each new unit may cause the Plan Sponsor’s operating results to fluctuate significantly, which could add to the volatility of the price of the JBS Common Stock. Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. Future market fluctuations may negatively affect the market price of the JBS Common Stock.

6. *Actual dividends paid on shares of JBS Common Stock may not be consistent with the dividend policy adopted by the Plan Sponsor’s board of directors.*

The Plan Sponsor’s board of directors is expected to adopt a dividend policy pursuant to which any future determination relating to dividend policy will be made at its discretion and will depend

on a number of factors, including the Plan Sponsor's business and financial condition, any covenants under its debt agreements and its parent company's legal obligation to distribute dividends. The Exit Facility Documents will not permit the payment of dividends by PPC without the approval of the required lenders under the Exit Facility. Under Brazilian law, the Plan Sponsor's parent company, JBS S.A., is required to pay dividends equal to 25% of its net income (as calculated under generally accepted accounting principles in Brazil, subject to certain adjustments mandated by Brazilian corporate law and other exceptions). However, the Plan Sponsor's board of directors is under no obligation to support the Brazilian legal requirements. The Plan Sponsor's board of directors may increase or decrease the level of dividends provided for in its dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to shares of JBS Common Stock, if any, will depend on, among other things, the Plan Sponsor's results of operations, cash requirements, financial condition, distribution of dividends made by its subsidiaries, contractual restrictions, business opportunities, provisions of applicable law and other factors that its board of directors may deem relevant. For the foregoing reasons, holders of shares of JBS Common Stock will not be able to rely on dividends to receive a return on their investment. In addition, to the extent that the Plan Sponsor pays dividends, the amounts distributed to its shareholders may not be available to the Plan Sponsor to fund future growth and may affect its other liquidity needs.

7. *Provisions in the Plan Sponsor's amended and restated certificate of incorporation and amended and restated bylaws and Delaware law may discourage, delay or prevent a change of control or changes in management.*

The Plan Sponsor's amended and restated certificate of incorporation and amended and restated bylaws and Delaware law will contain provisions that could act to discourage, delay or prevent a change of control or changes in management. These provisions:

- authorize the issuance of "blank check" preferred stock that the Plan Sponsor's board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- provide for a classified board of directors (three classes);
- provide that stockholders may only remove directors for cause;
- provide that any vacancy on the Plan Sponsor's board of directors, including a vacancy resulting from an increase in the size of the board, may only be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that a special meeting of stockholders may only be called by the Plan Sponsor's board of directors or by the chairman of the board of directors;
- provide that action by written consent of the stockholders may be taken only if JBS S.A. and any of its subsidiaries own at least 50% of the outstanding shares of JBS Common Stock;
- limit the liability of, and provide indemnification to, the Plan Sponsor's directors and officers;
- limit the ability of the Plan Sponsor's stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting; and

- provide that the board of directors is expressly authorized to make, alter or repeal the Plan Sponsor's bylaws.

Additionally, the Plan Sponsor is subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

These provisions may act to prevent a change of control, a change in management or other actions, including actions that the Plan Sponsor's stockholders may deem advantageous. These provisions may also have a negative effect on the trading price of the JBS Common Stock.

8. Holdings of JBS Common Stock may be subject to dilution.

The Plan Sponsor intends to implement a stock option plan that will grant options to its executive officers to purchase shares of JBS Common Stock with exercise prices that may be below the price calculated pursuant to the Mandatory Exchange Transaction. To the extent that these options are granted and exercised, holders of JBS Common Stock will experience further dilution.

**E. Risks Related to the Financial and Operational Results of the Plan Sponsor**

1. Outbreaks of BSE, Foot-and-Mouth Disease, or FMD, or other species-based diseases in the United States, Australia or elsewhere may harm demand for the Plan Sponsor's products.

An outbreak of disease affecting livestock, such as BSE, could result in restrictions on sales of products to customers or purchases of livestock from suppliers. Also, outbreaks of these diseases or concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, can lead to cancellation of orders by customers and create adverse publicity that may have a material adverse effect on customer demand for products of the Plan Sponsor. In December 2003, the USDA reported the first confirmed case of BSE in the United States. Following the announcement, substantially all international export markets banned the import of U.S. beef. Canada also confirmed its first case of BSE in 2003, leading to the USDA's closure to imports of live cattle from Canada. As a result, export demand declined and negatively impacted the volume of processing at the Plan Sponsor's facilities. The United States currently imports cattle that is 30 months of age or younger from Canada, and Mexico reopened its borders to U.S. beef in April 2004. However, the late June 2005 announcement by the USDA of a second confirmed case of BSE in the United States followed by a third confirmed case in March 2006 has extended some border closures and slowed the re-entry of U.S. beef to some foreign markets. On July 27, 2006, Japan announced it would resume importing some U.S. beef, restricted to cattle that is 20 months or younger from approved U.S. processing plants. In 2006, South Korea reopened its market to boneless beef from the United States. However, disagreements and lack of clarity over import rules and procedures slowed the re-entry of U.S. boneless beef such that such exports to South Korea did not truly commence until 2008. As of March 29, 2009, 16 countries were still closed to U.S. beef. The Plan Sponsor is currently unable to assess whether or when these remaining foreign markets may fully open to U.S. beef or whether existing open markets may close.

In addition to BSE (in the case of cattle) and FMD (a highly contagious animal disease), cattle, sheep and pigs are subject to outbreaks of other diseases affecting such livestock. An actual outbreak of BSE, FMD or any other diseases, or the perception by the public that such an outbreak has occurred, could result in restrictions on domestic and export sales of products of the Plan Sponsor (even if its products are not actually affected by any disease), cancellations of orders by its customers and adverse publicity. In addition, if the products of the Plan Sponsor's competitors become contaminated, the adverse

publicity associated with such an event may lower consumer demand for products of the Plan Sponsor. Any of these events could have a material adverse effect on the Plan Sponsor.

2. *Any perceived or real health risks related to the food industry could adversely affect the ability of the Plan Sponsor to sell its products. If its products become contaminated, the Plan Sponsor may be subject to product liability claims and product recalls.*

The Plan Sponsor is subject to risks affecting the food industry generally, including risks posed by the following:

- food spoilage or food contamination;
- evolving consumer preferences and nutritional and health-related concerns;
- consumer product liability claims;
- product tampering;
- the possible unavailability and expense of product liability insurance; and
- the potential cost and disruption of a product recall.

The Plan Sponsor's beef products and pork products in the United States have in the past been, and may in the future be, exposed to contamination by organisms that may produce foodborne illnesses, such as E. coli, Listeria monocytogenes and Salmonella. These organisms are generally found in the environment and, as a result, there is a risk that they could be present in the Plan Sponsor's products. These pathogens can also be introduced to products through tampering or as a result of improper handling at the further processing, food service or consumer level. Once contaminated products have been shipped for distribution, illness or death may result if the products are not properly prepared prior to consumption or if the pathogens are not eliminated in further processing.

Although the Plan Sponsor has systems in place designed to monitor food safety risks throughout all stages of its processes, such systems, even when working effectively, may not eliminate the risks related to food safety. As a result, the Plan Sponsor may voluntarily recall, or be required to recall, its products if they are or may be contaminated, spoiled or inappropriately labeled. For example, on June 25, 2009, the Plan Sponsor voluntarily recalled 41,280 pounds of beef products that may have been contaminated with E. coli. Following further investigations, on June 28, 2009, the Plan Sponsor voluntarily expanded this recall to include an additional 380,000 pounds of assorted beef products. The recalled beef products were produced on April 21 and April 22, 2009 at its Greeley, Colorado facility and were shipped to distributors and retailers in multiple states and internationally. While the Plan Sponsor was unable to ascertain the exact cost incurred relating to these voluntary recalls, the total cost of these recalls was anticipated to be less than \$4 million. Although no direct link has been confirmed, the Centers for Disease Control and Prevention has stated that cases of E. coli illnesses may be associated with the consumption of these beef products.

The Plan Sponsor may be subject to significant liability in the jurisdictions in which its products are sold if the consumption of any of its products causes injury, illness or death and such liability may be in excess of applicable liability insurance policy limits. Adverse publicity concerning any perceived or real health risk associated with its products could also cause customers to lose confidence in the safety and quality of the Plan Sponsor's food products, which could adversely affect its ability to sell products. The Plan Sponsor could also be adversely affected by perceived or real health risks associated

with similar products produced by others to the extent such risks cause customers to lose confidence in the safety and quality of such products generally. Any of these events may have a material adverse effect on the Plan Sponsor.

3. *The Plan Sponsor's pork business could be negatively affected by concerns about A(H1N1) influenza.*

In 2009, A(H1N1) influenza spread to several countries. More than 94,000 cases and over 400 deaths worldwide have been recorded since the outbreak of A(H1N1) influenza in Mexico, and on June 11, 2009, the World Health Organization, or WHO, declared a flu alert level six, signaling a "global pandemic." Although the WHO has stated that there is no relation between those infected with Influenza A(H1N1) and contact with persons living near swine or the consumption of pork, several countries, including Russia, Thailand, Ukraine, China and the Philippines, have stopped importing some or all pork produced in the affected states in the United States and certain other affected regions in the world.

Any further outbreaks of the disease could have a negative impact on the consumption of pork in the markets of the Plan Sponsor, and a significant outbreak could negatively affect its pork net sales and overall financial performance. Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in its international markets. Accordingly, any spread of A(H1N1) influenza, or increasing concerns about this disease could negatively impact the Plan Sponsor's pork results of operations and its ability to sell pork in existing and new markets.

4. *The Plan Sponsor's results of operations may be negatively impacted by fluctuations in the prevailing market prices for livestock.*

The Plan Sponsor is dependent on the cost and supply of livestock and the selling price of its products and competing protein products, all of which can vary significantly over a relatively short period of time. Livestock prices demonstrate a cyclical nature both seasonally and over periods of years, reflecting the supply of and demand for livestock on the market and the market for other protein products such as livestock and fish. These costs are determined by constantly changing market forces of supply and demand as well as other factors over which the Plan Sponsor has little or no control. These other factors include:

- environmental and conservation regulations;
- import and export restrictions;
- economic conditions;
- livestock diseases; and
- declining cattle inventory levels in the United States and/or Australia.

The Plan Sponsor does not generally enter into long-term sales arrangements with its customers with fixed price contracts, and, as a result, the prices at which the Plan Sponsor sells its products are determined in large part by market conditions. A majority of its livestock is purchased from independent producers who sell livestock to the Plan Sponsor under marketing contracts or on the open market. A significant decrease in beef or pork prices for a sustained period of time could have a material adverse effect on the net sales revenue of the Plan Sponsor and, unless its raw material costs and other costs correspondingly decrease, on the Plan Sponsor's operating margins.



The Plan Sponsor attempts to manage certain of these risks through the use of risk management and hedging programs, which include forward purchase and sale agreements and futures and options, but these strategies cannot and do not fully eliminate these risks. Furthermore, these programs may also limit the Plan Sponsor's ability to participate in gains from favorable commodity price fluctuations. Also, a portion of its forward purchase and sale contracts are marked-to-market such that the related unrealized gains and losses are reported in earnings on a quarterly basis. Therefore, losses on those contracts would adversely affect the Plan Sponsor's earnings and may cause significant volatility in its quarterly earnings.

Accordingly, the Plan Sponsor may be unable to pass on all or part of any increased costs experienced from time to time to consumers of its products directly, in a timely manner or at all. Additionally, if the Plan Sponsor does not attract and maintain contracts or marketing relationships with independent producers and growers, its production operations could be disrupted.

5. *The Plan Sponsor's businesses are subject to government policies and extensive regulations affecting the cattle, hog, beef and pork industries.*

Livestock production and trade flows are significantly affected by government policies and regulations. Governmental policies affecting the livestock industry, such as taxes, tariffs, duties, subsidies and import and export restrictions on livestock products, can influence industry profitability, the use of land resources, the location and size of livestock production, whether unprocessed or processed commodity products are traded, and the volume and types of imports and exports.

The Plan Sponsor's plants and products are subject to periodic inspections by federal, state and municipal authorities and to comprehensive food regulation, including controls over processed food. The Plan Sponsor's operations are subject to extensive regulation and oversight by state, local and foreign authorities regarding the processing, packaging, storage, distribution, advertising and labeling of its products, including food safety standards. Its exported products are often inspected by foreign food safety authorities, and any violation discovered during these inspections may result in a partial or total return of a shipment, partial or total destruction of the shipment and costs due to delays in product deliveries to customers.

The operations of the Plan Sponsor in the United States are subject to extensive regulation and oversight by the USDA, the U.S. Environmental Protection Agency, or the EPA, and other state, local and foreign authorities regulating the processing, packaging, labeling, storage, distribution and advertising of products. Recently, the food safety practices and procedures of the meat processing industry have been subject to more intense scrutiny and oversight by the USDA. Food safety standards, processes and procedures are subject to the USDA Hazard Analysis Critical Control Point program, which includes compliance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. Wastewater, storm water and air discharges from the Plan Sponsor's operations are subject to extensive regulations by the EPA and other state and local authorities. Its facilities for processing beef, pork and lamb are subject to a variety of federal, state and local laws relating to the health and safety of employees including those administered by the U.S. Occupational Safety and Health Administration, or OSHA. The Plan Sponsor's Australian operations also are subject to extensive regulation by the Australian Quarantine Inspection Service, or AQIS, and other state, local and foreign authorities. Additionally, the Plan Sponsor is routinely affected by new or amended laws, regulations and accounting standards. Failure to comply with applicable laws and regulations or failure to obtain necessary permits and registrations could delay or prevent the Plan Sponsor from meeting current product demand or acquiring new businesses, as well as possibly subjecting it to administrative penalties, damages, injunctive relief, fines, injunctions, recalls of products or seizure of properties as well as potential

criminal sanctions, any of which could materially adversely affect the financial results of the Plan Sponsor.

Government policies in the United States, Australia and other jurisdictions may adversely affect the supply, demand for and prices of livestock products, restrict the Plan Sponsor's ability to do business in existing and target domestic and export markets and could adversely affect its results of operations. For example, the European Union has banned the importation of beef raised using hormones. The Plan Sponsor's facilities in the U.S. and, to a limited extent, its facilities in Australia process cattle that have been raised with hormones and therefore, the Plan Sponsor is prohibited from exporting products from these facilities to the European Union. In addition, the Obama administration announced recently that it would seek to ban many routine uses of antibiotics, which are fed to farm animals to encourage rapid growth, in hopes of reducing the spread of dangerous bacteria in humans.

In addition, if the Plan Sponsor is required to comply with future material changes in food safety regulations, it could be subject to material increases in operating costs and could be required to implement regulatory changes on schedules that cannot be met without interruptions in its operations.

6. Compliance with environmental requirements may result in significant costs, and failure to comply may result in civil liabilities for damages as well as criminal and administrative sanctions and liability for damages.

The Plan Sponsor's operations are subject to extensive and increasingly stringent federal, state, local and foreign laws and regulations pertaining to the protection of the environment, including those relating to the discharge of materials into the environment, the handling, treatment and disposition of wastes and remediation of soil and ground water contamination. Failure to comply with these requirements can have serious consequences, including criminal as well as civil and administrative penalties, claims for property damage, personal injury and damage to natural resources and negative publicity. The Plan Sponsor has incurred significant capital and operating expenditures and expects to incur approximately \$30 million in additional capital expenditures between 2009 and 2012, including for the upgrade of its wastewater treatment facilities and remediation of previous contamination from the release of wastewater from certain of its plants under predecessor ownership. Additional environmental requirements imposed in the future and/or stricter enforcement of existing requirements could require currently unanticipated investigations, assessments or expenditures and may require the Plan Sponsor to incur significant additional costs. The nature of these potential future charges is unknown so it is not possible to estimate the magnitude of any future costs, and the Plan Sponsor has not accrued any reserve for any potential future costs.

Some of the Plan Sponsor's facilities have been in operation for many years. During that time, the Plan Sponsor and previous owners and operators of these facilities have generated and disposed of wastes that are or may be considered hazardous or may have polluted the soil, surface water or groundwater at these facilities and adjacent properties. Some environmental laws impose strict and, in certain circumstances, joint and several liability for costs of investigation and remediation of contaminated sites on current and former owners and operators of the sites, and on persons who arranged for disposal of wastes at such sites. Discovery of previously unknown contamination of property underlying or in the vicinity of the Plan Sponsor's or its predecessor's present or former properties or manufacturing facilities and/or waste disposal sites could require the Plan Sponsor to incur material unforeseen expenses. Occurrences of any of these events may have a material adverse effect on the business, financial condition, results of operations and cash flows of the Plan Sponsor.

In addition, increasing efforts to control emissions of greenhouse gases, or GHG, are likely to impact the Plan Sponsor. In the United States, the EPA recently proposed a mandatory GHG

reporting system for certain activities, including manure management systems, which exceed specified emission thresholds. The EPA has also announced a proposed finding relating to GHG emissions that may result in promulgation of GHG air quality standards. The U.S. Congress is considering various options, including a cap and trade system which would impose a limit and a price on GHG emissions and establish a market for trading GHG credits. The House of Representatives recently passed a bill contemplating such a cap and trade system, and the bill is now before the Senate.

Certain states have taken steps to regulate GHG emissions that may be more stringent than federal regulations. In Australia, the federal government has proposed a GHG cap and trade system that would cover agricultural operations, including certain of the Plan Sponsor's feedlots, and at least two of its processing plants. Certain states in Australia could also adopt regulations of GHG emissions which are stricter than Australian federal regulations. While it is not possible to estimate the specific impact final GHG regulations will have on the Plan Sponsor's operations, there can be no guarantee that these measures will not have significant additional impact.

7. *The Plan Sponsor's export and international operations expose it to political and economic risks in foreign countries, as well as to risks related to currency fluctuations.*

Sales outside the United States, primarily to Russia, Japan, Mexico, South Korea, Canada, Taiwan and China, accounted for approximately 21% of the Plan Sponsor's total net sales for the fiscal quarter ended March 29, 2009. Its international activities expose the Plan Sponsor to risks not faced by companies that limit themselves to sales in the United States only. One significant risk is that the international operations may be affected by import restrictions and tariffs, other trade protection measures, and import or export licensing requirements. For example, in 2008, exports to Japan from the Plan Sponsor's processing plant in Wisconsin were suspended, as were exports to South Korea from its Colorado plant and to Russia from one of its pork production plants. In April 2009, Russia halted imports from the Plan Sponsor's pork facility in Louisville, Kentucky. The future financial performance of the Plan Sponsor will depend significantly on economic, political and social conditions in the Plan Sponsor's and JBS S.A.'s principal export markets (the European Union, Russia, the United States, Japan, Mexico, Canada, Taiwan, China and the Middle East). Other risks associated with the Plan Sponsor's international activities include:

- changes in foreign currency exchange rates and inflation in the foreign countries in which the Plan Sponsor operates;
- exchange controls;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets;
- potentially negative consequences from changes in regulatory requirements;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex international laws, treaties, and regulations, including, without limitation, the Foreign Corrupt Practices Act;
- tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;
- potentially negative consequences from changes in tax laws; and

- distribution costs, disruptions in shipping or reduced availability of freight transportation.

While the Plan Sponsor attempts to manage certain of these risks through the use of risk management and hedging programs, which include futures and options, these strategies cannot and do not fully eliminate these risks. An occurrence of any of these events could negatively impact the Plan Sponsor's results of operations and ability to transact business in existing or developing markets.

8. *Deterioration of economic conditions could negatively impact the business of the Plan Sponsor.*

The Plan Sponsor's business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Any such changes could adversely affect the demand for its products both in domestic and export markets, or the cost and availability of its needed raw materials, cooking ingredients and packaging materials, thereby negatively affecting its financial results.

The recent disruptions in credit and other financial markets and deterioration of national and global economic conditions, could, among other things:

- negatively impact global demand for protein products, which could result in a reduction of sales, operating income and cash flows;
- cause customers or end consumers of products to "trade down" to other protein sources such as chicken or fish, or to cuts of beef or pork that are less profitable, putting pressure on the Plan Sponsor's profit margins;
- make it more difficult or costly for the Plan Sponsor to obtain financing for its operations or investments or to refinance its debt in the future;
- cause its lenders to depart from prior credit industry practice and make more difficult or expensive the granting of any technical or other waivers under its debt agreements to the extent the Plan Sponsor may seek them in the future;
- impair the financial condition of some of its customers, suppliers or counterparties to the Plan Sponsor's derivative instruments, thereby increasing customer bad debts or non-performance by suppliers or counterparties;
- decrease the value of the Plan Sponsor's investments; and
- impair the financial viability of the Plan Sponsor's insurers.

9. *Failure to successfully implement the Plan Sponsor's business strategies may affect plans to increase revenue and cash flow.*

The Plan Sponsor's growth and financial performance depends, in part, on its success in implementing numerous elements of its strategies that are dependent on factors that are beyond its control.

The Plan Sponsor may be unable to fully or successfully implement its strategies. The beef and pork industries and the food distribution industry are particularly influenced by changes in customer preferences, governmental regulations, regional and national economic conditions, demographic trends and sales practices by retailers, among other factors. Some aspects of the Plan Sponsor's strategy require an increase in operating costs and a significant increase in capital expenditures that may not be offset by a corresponding increase in revenue, resulting in a decrease in operating margins.

For example, the Plan Sponsor is pursuing a global direct distribution strategy as it seeks to enhance operating margins. The implementation of this strategy will require the Plan Sponsor to make substantial investments in order to build a distribution center network, as well as related operating expenses. There can be no assurance that the increased sales levels and enhanced margins anticipated will result from this strategic initiative, or that the Plan Sponsor will achieve an adequate return on the required investment. In addition, this strategy may expose the Plan Sponsor to direct competition with existing third party distribution customers in some segments, which could affect relationships with these customers.

10. *The Plan Sponsor's business strategies require substantial capital and long-term investments, which it may be unable to fund.*

The Plan Sponsor's business strategies will require substantial additional capital investment, including, for example, its strategy of creating a global direct distribution network. To the extent that the net proceeds from the Plan Sponsor's offering of JBS Common Stock and cash generated internally and cash available under its revolving credit facility are not sufficient to fund capital requirements, the Plan Sponsor will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be available on satisfactory terms, including as a result of adverse macroeconomic conditions. The Plan Sponsor's parent company, JBS S.A., has invested over \$1.4 billion in equity capital in the Plan Sponsor since the Swift Acquisition in 2007. In addition, since July 11, 2007, the Plan Sponsor have invested \$187.0 million in its U.S. and Australian manufacturing operations, excluding the JBS Packerland and Tasman Acquisitions. The parent company may not agree to provide the Plan Sponsor with additional financing in the future. The parent company is a public company in Brazil and may in the future have interests that conflict or compete with those of the Plan Sponsor. In addition, the Plan Sponsor is limited in its ability to incur indebtedness in certain circumstances under the terms of its outstanding indebtedness under the revolving credit facility, the indenture governing the 11.625% senior unsecured notes issued by the Plan Sponsor earlier this year and the indentures governing the 10.50% notes due 2016 in an aggregate principal amount of \$300.0 million issued by JBS S.A. in 2006.

The Plan Sponsor may be unable to obtain sufficient additional capital in the future to fund its capital requirements and its business strategy at acceptable costs. If the Plan Sponsor is unable to access additional capital on acceptable terms, it may not be able to fully implement its business strategy, which may limit the future growth and development of its business. In addition, equity financings could result in dilution to the stockholders of the Plan Sponsor, and equity or debt securities issued in future financings may have rights, preferences and privileges that are senior to those of the JBS Common Stock. If the Plan Sponsor's need for capital arises because of significant losses, the occurrence of these losses may make it more difficult to raise the necessary capital.

Implementation of any of the Plan Sponsor's strategies depends on factors that are beyond its control, such as changes in the conditions of the markets, actions taken by competitors, or existing laws and regulations at any time by U.S. federal government or by any other state, local or national government. The Plan Sponsor's failure to successfully implement any part of its strategy may materially adversely impact its business, financial condition and results of operations.

11. *The Plan Sponsor may not be able to successfully integrate any growth opportunities undertaken in the future.*

The Plan Sponsor intends to pursue selected growth opportunities in the future as they arise. These types of opportunities may expose it to successor liability relating to actions involving any acquired entities, their respective management or contingent liabilities incurred prior to its involvement. A material liability associated with these types of opportunities, or the Plan Sponsor's failure to successfully integrate any acquired entities into its business, could adversely affect its reputation and have a material adverse effect on the Plan Sponsor.

The Plan Sponsor may not be able to successfully integrate any growth opportunities undertaken in the future or successfully implement appropriate operational, financial and administrative systems and controls to achieve the benefits expected to result therefrom. These risks include: (1) failure of the acquired entities to achieve expected results, (2) possible inability to retain or hire key personnel of the acquired entities and (3) possible inability to achieve expected synergies and/or economies of scale. In addition, the process of integrating businesses could cause interruption of, or loss of momentum in, the activities of the Plan Sponsor's existing business. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of these businesses could negatively impact the business and results of operations of the Plan Sponsor.

12. *The Plan Sponsor faces competition in its business, which may adversely affect its market share and profitability.*

The beef and pork industries are highly competitive. Competition exists both in the purchase of live cattle and hogs and in the sale of beef and pork products. In addition, the Plan Sponsor's beef and pork products compete with a number of other protein sources, including poultry and fish. The Plan Sponsor competes with numerous beef producers, including companies based in the United States (Tyson Foods Inc., National Beef Packing Company, LLC and Cargill Inc.) and in Australia (Teys Bros Pty Ltd. and Nippon Meat Packers Ltd.), as well as pork producers (Smithfield Foods, Inc., Tyson Foods Inc. and Cargill Inc.). The principal competitive factors in the beef and pork processing industries are operating efficiency and the availability, quality and cost of raw materials and labor, price, quality, food safety, product distribution, technological innovations and brand loyalty. The Plan Sponsor's ability to be an effective competitor depends on its ability to compete on the basis of these characteristics. Some of its competitors have greater financial and other resources and enjoy wider recognition for their consumer branded products. The Plan Sponsor may be unable to compete effectively with these companies, and if it is unable to remain competitive with these beef and pork producers in the future, its market share may be adversely affected.

13. *Changes in consumer preferences could adversely affect the business of the Plan Sponsor.*

The food industry, in general, is subject to changing consumer trends, demands and preferences. The Plan Sponsor's products compete with other protein sources, including poultry and fish. Trends within the food industry frequently change, and the Plan Sponsor's failure to anticipate, identify or react to changes in these trends could lead to reduced demand and prices for its products, among other concerns, and could have a material adverse effect on its business, financial condition, results of operations and market price of the JBS Common Stock.

14. *The Plan Sponsor's business could be materially adversely affected as a result of adverse weather conditions or other unanticipated extreme events in its areas of operations.*

Changes in the historical climate in the areas in which the Plan Sponsor operates could have a material adverse effect on its business. For instance, the timing of delivery to market and availability of livestock for the Plan Sponsor's grass fed division in Australia is dependent on access to range lands and paddocks which can be negatively impacted by periods of extended drought. In addition, the Plan Sponsor's cattle feeding operations in Australia and meat packing facilities in the U.S. and Australia rely on large volumes of potable water for the raising of healthy livestock and the fabrication of meat products. Potable water is generally available from municipal supplies and/or naturally replenished aquifers, the access to which and availability of which could be affected in the event rainfall patterns change, aquifers become depleted or contaminated and municipal supplies are not maintained. While the Plan Sponsor owns substantial water rights, occurrences of any of these events, or inability to enforce existing or secure additional water rights in the future, could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Plan Sponsor.

Natural disasters, fire, bioterrorism, pandemics or extreme weather, including floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of livestock or interfere with the Plan Sponsor's operations due to power outages, fuel shortages, damage to production and processing facilities or disruption of transportation channels, among other things. Any of these factors, as well as disruptions in information systems, could have an adverse effect on the Plan Sponsor's financial results.

15. *The Plan Sponsor's performance depends on favorable labor relations with employees and compliance with labor laws. Any deterioration of those relations or increase in labor costs due to compliance with labor laws could adversely affect the business of the Plan Sponsor.*

As of March 29, 2009 the Plan Sponsor had a total of approximately 31,900 employees worldwide. A majority of these employees are represented by labor organizations, and the relationships with these employees are governed by collective bargaining agreements. In the U.S., the Plan Sponsor has 11 collective bargaining or other labor agreements expiring in 2009 and 2010, covering approximately 24,300 employees. In Australia, the Plan Sponsor has 20 collective bargaining or other collective labor agreements, 14 of which expire between 2010 and 2014. Upon the expiration of existing collective bargaining agreements or other collective labor agreements, the Plan Sponsor may not reach new agreements without union action and any such new agreements may not be on satisfactory terms. In addition, any new agreements may be for shorter durations than those of the Plan Sponsor's historical agreements. Moreover, additional groups of currently non-unionized employees may seek union representation in the future. If the Plan Sponsor is unable to negotiate acceptable collective bargaining agreements, it may become subject to union-initiated work stoppages, including strikes.

Additionally, it is expected that the Employee Free Choice Act, which was passed in the U.S. House of Representatives in 2007, will be reintroduced in the new U.S. Congress. If reintroduced and enacted in its most recent form, the Employee Free Choice Act could make it significantly easier for union organizing drives to be successful. The Employee Free Choice Act could also give third-party arbitrators the ability to impose terms, which may be harmful to the Plan Sponsor, of collective bargaining agreements if the relevant company and union are unable to agree to the terms of a collective bargaining agreement. This legislation could increase the penalties incurred if the Plan Sponsor engages in labor practices in violation of the National Labor Relations Act. Any significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages at any of its locations, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Plan Sponsor.

On December 12, 2006, at which time the Plan Sponsor was under previous private equity ownership, agents from the U.S. Department of Homeland Security's Immigration and Customs Enforcement division, or ICE, and other law enforcement agencies conducted on-site employee interviews at all production facilities except with respect to the production facilities located in Louisville, Kentucky and Santa Fe Springs, California, in connection with an investigation of the immigration status of an unspecified number of workers. Approximately 1,300 individuals were detained by ICE and removed from the Plan Sponsor's U.S. domestic labor force. To date, no civil or criminal charges have been filed by the U.S. government against the Plan Sponsor or any of its current or former management employees. On December 12, 2006, after a six- to seven-hour suspension of operations due to the employee interview process, the Plan Sponsor resumed production at all facilities in the United States, but at reduced output levels. The Plan Sponsor estimates that this event resulted in additional costs of approximately \$82 million, as well as reduced revenues at the affected facilities, as lower levels of experienced staffing resulted in lower volumes of beef that met processing specifications. The Plan Sponsor resumed normal production at its pork processing facilities in March 2007 and reported in May 2007 that it had returned to standard staffing levels at all beef processing facilities. The Plan Sponsor has enhanced previous hiring and legal compliance practices to mitigate this risk; however, it may face similar disruptions in the future at the U.S. facilities, its enhanced hiring practices may expose it to an increased risk of lawsuits related to such practices, and its labor costs may be negatively affected as a result.

16. *The consolidation of customers could negatively impact business of the Plan Sponsor.*

The Plan Sponsor's customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years, and consolidation is expected to continue throughout the United States and in other major markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing, increased promotional programs and specifically tailored products. These customers also may use shelf space currently used for products of the Plan Sponsor for their own private label products. If the Plan Sponsor fails to respond to these trends, its volume growth could slow or it may need to lower prices or increase promotional spending for its products, any of which would adversely affect the financial results of the Plan Sponsor.

17. *The Plan Sponsor is dependent on certain key members of management.*

The Plan Sponsor's operations, particularly in connection with the implementation of its strategies and the development of its operations, depend on certain key members of its management. If any of these key management personnel leaves the Plan Sponsor, the results of operations and financial condition of the Plan Sponsor may be adversely affected.

18. *The Plan Sponsor's debt could adversely affect its business.*

On April 27, 2009, the Plan Sponsor's wholly owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc. issued \$700.0 million in senior unsecured notes due May 2014 bearing interest at 11.625%. As of March 29, 2009, after giving effect to the issuance and sale of the Plan Sponsor's 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom, the Plan Sponsor has total outstanding consolidated debt on its balance sheet of approximately \$1.0 billion.

While the Plan Sponsor's level of indebtedness is lower than certain of its competitors, its consolidated debt could:

- make it difficult to satisfy its respective obligations;



- limit its ability to obtain additional financing to operate its business;
- require the Plan Sponsor to dedicate a substantial portion of cash flow to payments on debt, reducing its ability to use cash flow to fund working capital, capital expenditures and other general corporate requirements;
- limit its flexibility to plan for and react to changes in its business and the industry in which the Plan Sponsor operates;
- place the Plan Sponsor at a competitive disadvantage relative to some of its competitors that have less debt; and
- increase its vulnerability to general adverse economic and industry conditions, including changes in interest rates, lower cattle and hog prices or a downturn in its business or the economy.

In addition to the existing debt, the Plan Sponsor is not prohibited from incurring significantly more debt, which could intensify the risks described above. The terms of the indenture governing the 11.625% senior unsecured notes due 2014 permit the Plan Sponsor to incur significant additional indebtedness in the future, including secured debt. The Plan Sponsor may borrow additional funds to fund capital expenditures, working capital needs or other purposes, including future acquisitions.

## **IX.**

### **CERTAIN FEDERAL TAX CONSEQUENCES OF THE PLAN**

The following discussion summarizes certain U.S. federal income tax consequences of the implementation of the Plan to the Debtors, and to holders of Allowed Equity Interests in PPC. This discussion does not address the U.S. federal income tax consequences to holders of Claims who are unimpaired or otherwise entitled to payment in full in Cash under the Plan.

The discussion of U.S. federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the “Tax Code”), Treasury regulations, judicial authorities, published positions of the Internal Revenue Service (“IRS”) and other applicable authorities, all as in effect on the date of this document, and all of which are subject to change or differing interpretations (possibly with retroactive effect). The U.S. federal income tax consequences of the contemplated transactions are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or any other tax authority, and have not received an opinion of counsel with respect to any of the tax aspects of the contemplated transactions, and the discussion below is not binding upon the IRS or such other authorities. Thus, no assurance can be given that the IRS or such other authorities would not assert, or that a court would not sustain, a position different from any discussed herein.

This summary does not address foreign, state or local tax consequences of the contemplated transactions, nor does it address the U.S. federal income tax consequences of the transactions to special classes of taxpayers (such as, foreign taxpayers, small business investment companies, regulated investment companies, real estate investment trusts, banks and certain other financial institutions, insurance companies, tax-exempt organizations, retirement plans, holders that are, or hold Equity Interests through, partnerships or other entities treated as partnerships for U.S. federal income tax purposes, traders that mark their securities to market, persons subject to the alternative minimum tax, and persons holding Equity Interests that are part of a straddle, hedging, constructive sale or conversion transaction). In addition, this discussion does not address U.S. federal taxes other than

income taxes, nor does it apply to any person that acquires New PPC Common Stock in the secondary market.

This discussion assumes that New PPC Common Stock is held as a “capital asset” (generally, property held for investment) within the meaning of Section 1221 of the Tax Code. For U.S. federal income tax purposes, the Debtors intend to treat New PPC Common Stock and the other arrangements to which the Debtors are a party, in a manner consistent with their form.

*The following summary of certain U.S. federal income tax consequences is for informational purposes only, and is not a substitute for careful tax planning and advice based upon your individual circumstances.*

***IRS Circular 230 Notice:*** *To ensure compliance with IRS Circular 230, holders of Claims and Equity Interests are hereby notified that: (A) any discussion of United States federal tax issues contained or referred to in this Disclosure Statement is not intended or written to be used, and cannot be used, by holders of Claims or Equity Interests for the purpose of avoiding penalties that may be imposed on them under the Tax Code; (B) such discussion is written in connection with the promotion or marketing by the Debtors of the transactions or matters addressed herein; and (C) holders of Claims and Equity Interests should seek advice based on their particular circumstances from an independent tax advisor.*

#### **A. Consequences to Holders of Equity Interests in PPC**

Pursuant to the Plan, each holder of Equity Interests in PPC will receive, in exchange for such holder’s existing PPC Common Stock, New PPC Common Stock, which will be subject to the Mandatory Exchange Transaction.

The exchange of existing PPC Common Stock for New PPC Common Stock should qualify as a recapitalization, and no gain or loss should be recognized by such Equity Interest holder. The holder’s aggregate tax basis in the New PPC Common Stock received generally should equal the holder’s aggregate tax basis in the existing PPC Common Stock exchanged therefor. In general, a holder’s holding period in the New PPC Common Stock received will include the holder’s holding period in the PPC Common Stock exchanged therefor.

In the event that the Plan Sponsor completes an initial public offering of its common stock, the Plan Sponsor has the right to cause the exchange of the outstanding New PPC Common Stock for JBS Common Stock pursuant to the Mandatory Exchange Transaction. PPC and the Plan Sponsor intend that this exchange not result in the recognition of gain or loss by the holders of New PPC Common Stock. The tax treatment of the exchange, however, will depend on the applicable facts and the law in effect at the time of the exchange, and there can be no assurance that the exchange will be tax-free to holders of New PPC Common Stock. If the exchange results in the recognition of gain, generally holders of New Common Stock will have gain or loss equal to the difference between (i) the fair market value of the JBS Common Stock received by such holder and (ii) such holder’s tax basis in its New PPC Common Stock. Such gain or loss will generally constitute capital gain or loss. The deductibility of capital losses is subject to limitations. Holders of Equity Interests are urged to consult their own tax advisors regarding the tax treatment of the Mandatory Exchange Transaction to such holders.

Although the consequences to foreign taxpayers are not generally addressed in this summary, foreign taxpayers should be aware that PPC has not made a determination as to whether or not it is a “United States real property holding corporation” (“USRPHC”) for U.S. federal income tax purposes. PPC believes that there is a risk that it is a USRPHC. PPC will be a USRPHC if the fair

market value of its “United States real property interests” equal or exceed 50% of the sum of the fair market values of (a) its worldwide real property interests and (b) its other assets used or held for use in a trade or business. If PPC is, or has been, a USRPHC, foreign taxpayers could generally be subject to U.S. federal income tax on any gain realized on the sale or exchange of PPC Common Stock or New PPC Common Stock on a net income basis at regular graduated U.S. federal income tax rates. Gain that is not otherwise required to be recognized for U.S. tax purposes may nevertheless be required to be recognized by foreign taxpayers for these purposes unless the foreign taxpayer (i) receives a United States real property interest in exchange for a United States real property interest; (ii) the United States real property received would be subject immediately after the exchange to U.S. tax on its disposition; and (iii) the foreign taxpayer complies with any applicable filing requirements with respect to the exchange. The tax relating to the disposition of stock in a USRPHC does not apply to a foreign taxpayer whose holdings, actual and constructive, amount to 5% or less of PPC’s common stock at all times as long as PPC has been a USRPHC and for 5 years thereafter, provided that PPC’s common stock is regularly traded on an established securities market (which PPC currently believes is so traded, but there can be no assurances that it continue to be so traded). Foreign taxpayers holding Equity Interests are urged to consult their tax advisors to determine the application of these rules to their disposition of PPC common stock (including the exchange of PPC Common Stock for New PPC Common Stock and any exchange of New PPC Common Stock for JBS Common Stock) and to determine any applicable filing requirements.

1. Information Reporting and Backup Withholding

Payments of interest or dividends and any other reportable payments, possibly including amounts received pursuant to the Plan and payments of proceeds from the sale, retirement or other disposition of the exchange consideration, may be subject to “backup withholding” (currently at a rate of 28%) if a recipient of those payments fails to furnish to the payor certain identifying information, and, in some cases, a certification that the recipient is not subject to backup withholding. Backup withholding is not an additional tax. Any amounts deducted and withheld should generally be allowed as a credit against that recipient’s U.S. federal income tax, provided that appropriate proof is timely provided under rules established by the IRS. Furthermore, certain penalties may be imposed by the IRS on a recipient of payments who is required to supply information but who does not do so in the proper manner. Backup withholding generally should not apply with respect to payments made to certain exempt recipients, such as corporations and financial institutions. Information may also be required to be provided to the IRS concerning payments, unless an exemption applies. You should consult your own tax advisor regarding your qualification for exemption from backup withholding and information reporting and the procedures for obtaining such an exemption.

**B. Consequences to the Debtors**

Reorganized PPC expects to have NOL carryforwards and operating losses for the current year for U.S. federal income tax purposes in excess of \$700 million as of the Effective Date of the Plan. The amount of any such losses remains subject to audit and adjustment by the IRS.

As discussed below, in connection with the Plan, the amount of Reorganized PPC’s NOL carryforwards may be reduced or eliminated.

1. Cancellation of Debt

In general, the Tax Code provides that a debtor in a bankruptcy case is not required to include cancellation of indebtedness (“COD”) income in its gross income, but must reduce certain of its tax attributes – such as NOL carryforwards and current year NOLs, capital loss carryforwards, tax credits, and tax basis in assets – by the amount of any COD income incurred pursuant to a confirmed chapter 11

plan. The amount of COD income incurred is generally the amount by which the adjusted issue price of the indebtedness discharged exceeds the value of any consideration given in exchange therefor (issue price rather than value in the case of any debt instrument received). Certain statutory or judicial exceptions may apply to limit the amount of COD incurred for U.S. federal income tax purposes. If advantageous, the borrower can elect to reduce the basis of depreciable property prior to any reduction in its NOL carryforwards or other tax attributes. In the case of a consolidated U.S. federal income tax return, applicable Treasury regulations require, in certain circumstances, that the tax attributes of the consolidated subsidiaries of the borrower and other members of the group also be reduced. Any reduction in tax attributes in respect of COD income does not occur until after the determination of the taxpayer's income or loss for the taxable year in which the COD is incurred. The Debtors do not expect to incur any material amount of COD income as a result of the implementation of the Plan.

## 2. Potential Limitations on NOL Carryforwards and Other Tax Attributes

Following the Effective Date, the remaining NOL carryforwards and certain other tax attributes (including current year NOLs, if any) allocable to periods prior to the Effective Date (collectively, "pre-change losses") will be subject to limitation under Section 382 of the Tax Code since the Plan will cause an "ownership change" to occur with respect to PPC.

Under Section 382 of the Tax Code, if a corporation (or group of affiliated corporations filing a consolidated tax return) undergoes an ownership change, the amount of its pre-change losses that may be utilized to offset future taxable income is subject to an annual limitation. An ownership change occurs where the percentage of a company's equity held by one or more "5% shareholders" (as such term is defined in Section 382) increases by more than 50 percentage points over the lowest percentage of stock owned by those shareholders at any time during a three-year rolling testing period.

In general, the amount of the annual limitation to which a corporation that undergoes an ownership change will be subject is equal to the product of (i) the fair market value of the stock of the corporation *immediately before* the ownership change (with certain adjustments) multiplied by (ii) the "long-term tax exempt rate" in effect for the month in which the ownership change occurs (e.g., 4.48% for ownership changes occurring in September, 2009). Any portion of the annual limitation that is not used in a given year may be carried forward, thereby adding to the annual limitation for the subsequent taxable year. However, if the corporation does not continue its historic business or use a significant portion of its historic assets in a new business for at least two years after the ownership change, or if certain shareholders claim worthless stock deductions and continue to hold their stock in the corporation at the end of the taxable year, the annual limitation resulting from the ownership change is reduced to zero, thereby precluding any utilization of the corporation's pre-change losses, absent any increases due to recognized built-in gains discussed below. Generally, NOL carryforwards expire after 20 years.

The ownership change occurring on the Effective Date will qualify for a special bankruptcy rule that liberalizes the foregoing rules for valuing the stock of a corporation for purposes of determining the amount of the annual limitation under Section 382. Specifically, Section 382(l)(6) permits a debtor corporation that undergoes an ownership change to value the equity of the corporation, for purposes of determining the amount of the annual limitation, by using the value immediately after the ownership change (by increasing the value of the corporation to reflect any surrender or cancellation of creditors' claims) instead of the value immediately before the ownership change.

In the event that the Plan Sponsor completes an initial public offering of its common stock and exercises its option under the Mandatory Exchange Transaction to cause the exchange of outstanding New PPC Common Stock for JBS Common Stock, a second ownership change may occur with respect to Reorganized PPC. If this second ownership change occurs, the pre-change losses may be

subject to further limitation under Section 382 of the Tax Code (based on the long-term tax rate in effect on such date and the equity value of the corporation immediately before the second ownership change).

Section 382 of the Tax Code also limits the deduction of certain built-in losses recognized subsequent to the date of the ownership change. If a loss corporation has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of “built-in” income, gain, loss and deduction), then any built-in losses recognized during the following five years (up to the amount of the original net unrealized built-in loss) generally will be treated as pre-change losses and similarly will be subject to the annual limitation. Conversely, if the loss corporation has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized (or, according to an IRS notice, treated as recognized) during the following five years (up to the amount of the original net unrealized built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation would be permitted to use its pre-change losses against such built-in gain income in addition to its regular annual allowance.

In general, a loss corporation’s net unrealized built-in gain or loss will be deemed to be zero unless the actual value is greater than the lesser of (i) \$10 million or (ii) 15% of the fair market value of its assets (with certain adjustments) before the ownership change.

PPC believes that it has not already had an “ownership change” within the meaning of Section 382 of the Tax Code that would limit the use of PPC’s NOL carryforwards. Moreover, PPC has obtained an injunction to restrain trading in equity claims in an attempt to avoid the occurrence of an ownership change prior to the implementation of the Plan. It is possible, however, that such an ownership change has nonetheless occurred; in which case, the Section 382 limitation would likely be zero.

### 3. Alternative Minimum Tax

In general, a U.S. federal alternative minimum tax (“AMT”) is imposed on a corporation’s alternative minimum taxable income at a 20% rate to the extent that such tax exceeds the corporation’s regular U.S. federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. In particular, even though a corporation otherwise might be able to offset all of its taxable income for regular tax purposes by available NOL carryforwards, only 90% of a corporation’s taxable income for AMT purposes may be offset by available NOL carryforwards (as computed for AMT purposes).

Any AMT that a corporation pays generally will be allowed as a nonrefundable credit against its regular U.S. federal income tax liability in future taxable years when the corporation is no longer subject to the AMT. An AMT credit cannot be carried back but carried forward indefinitely.

## X.

### CERTAIN SECURITIES LAW MATTERS

#### A. Issuance and Resale of New PPC Common Stock

In reliance upon section 1145 of the Bankruptcy Code, the offer and issuance of the New PPC Common Stock to the holders of Allowed Equity Interests in PPC in Class 12(a) will be exempt from the registration requirements of the Securities Act and equivalent provisions in state securities laws. Section 1145(a) of the Bankruptcy Code generally exempts from such registration requirements the issuance of securities if the following conditions are satisfied: (i) the securities are issued or sold under a chapter 11 plan by (a) a debtor, (b) one of its affiliates participating in a joint plan with the debtor, or (c) a successor to a debtor under the plan and (ii) the securities are issued entirely in exchange for a claim against or interest in the debtor or such affiliate, or are issued principally in such exchange and partly for cash or property. The Debtors believe that the exchange of the New PPC Common Stock against Allowed Equity Interests against PPC under the circumstances provided in the Plan will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

The New PPC Common Stock to be issued pursuant to the Plan will be deemed to have been issued in a public offering under the Securities Act and, therefore, may be resold by any holder thereof without registration under the Securities Act pursuant to the exemption provided by section 4(1) thereof, unless the holder is an “underwriter” with respect to such securities, as that term is defined in section 1145(b)(1) of the Bankruptcy Code, or a Statutory Underwriter (described below). In addition, such securities generally may be resold by the holders thereof without registration under state securities or “blue sky” laws pursuant to various exemptions provided by the respective laws of the individual states. However, holders of securities issued under the Plan are advised to consult with their own counsel as to the availability of any such exemption from registration under federal securities laws and any relevant state securities laws in any given instance and as to any applicable requirements or conditions to the availability thereof.

Section 1145(b)(i) of the Bankruptcy Code defines “underwriter” for purposes of the Securities Act as one who (i) purchases a claim or interest with a view to distribution of any security to be received in exchange for the claim or interest, (ii) offers to sell securities offered or sold under a plan for the holders of such securities, (iii) offers to buy securities offered or sold under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities and under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan, or (iv) is an issuer of the securities within the meaning of section 2(a)(11) of the Securities Act.

An entity that is not an issuer is not deemed to be an “underwriter” under section 2(a)(11) of the Securities Act with respect to securities received under section 1145(a)(1) which are transferred in “ordinary trading transactions” made on a national securities exchange. What constitutes “ordinary trading transactions” within the meaning of section 1145 of the Bankruptcy Code is the subject of interpretive letters by the staff of the SEC. Generally, ordinary trading transactions are those that do not involve (i) concerted activity by recipients of securities under a Plan, or by distributors acting on their behalf, in connection with the sale of such securities, (ii) use of informational documents in connection with the sale other than the disclosure statement relating to the plan, any amendments thereto, and reports filed by the issuer with the SEC under the Securities Exchange Act of 1934, or (iii) payment of special compensation to brokers or dealers in connection with the sale, other than the compensation that would be paid pursuant to an arms-length negotiation between a seller and a broker or dealer, each acting

unilaterally, not greater than the compensation that would be paid for a routine similar-sized sale of similar securities of a similar issuer.

However, the reference contained in section 1145(b)(1)(D) of the Bankruptcy Code to section 2(11) of the Securities Act purports to include as Statutory Underwriters all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. “Control” (as defined in Rule 405 under the Securities Act) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a “control person” of such debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the voting securities of such issuer. Additionally, the legislative history of section 1145 of the Bankruptcy Code provides that a creditor who receives at least 10% of the voting securities of an issuer under a plan of reorganization will be presumed to be a Statutory Underwriter within the meaning of section 1145(b)(i) of the Bankruptcy Code.

Resales of the shares of New PPC Common Stock by persons deemed to be Statutory Underwriters would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders of New PPC Common Stock deemed to be “underwriters” may be entitled to resell their securities pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act, to the extent available, and in compliance with applicable state and foreign securities laws. Generally, Rule 144 of the Securities Act provides that persons who are affiliates of an issuer who resell securities will not be deemed to be underwriters if certain conditions are met. These conditions include the requirement that current public information with respect to the issuer be available, a limitation as to the amount of securities that may be sold in any three-month period, the requirement that the securities be sold in a “brokers transaction” or in a transaction directly with a “market maker” and that notice of the resale be filed with the SEC. While the Debtors intend to seek a listing of the New PPC Common Stock on a national securities exchange, they cannot assure, however, that adequate current public information will exist with respect to any issuer of the New PPC Common Stock and, therefore, that the safe harbor provisions of Rule 144 of the Securities Act will be available.

Pursuant to the Plan, certificates evidencing the New PPC Common Stock received by restricted holders or by a holder that the Debtors determine is an underwriter within the meaning of section 1145 of the Bankruptcy Code will bear a legend substantially in the form below:

**THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.**

Any person or entity entitled to receive shares of New PPC Common Stock who the issuer of such securities determines to be a Statutory Underwriter that would otherwise receive legended securities as provided above, may instead receive certificates evidencing securities without such legend if, prior to the distribution of such securities, such person or entity delivers to such issuer, (i) an opinion of

counsel reasonably satisfactory to such issuer to the effect that the securities to be received by such person or entity are not subject to the restrictions applicable to “underwriters” under section 1145 of the Bankruptcy Code and may be sold without registration under the Securities Act and (ii) a certification that such person or entity is not an “underwriter” within the meaning of section 1145 of the Bankruptcy Code.

Any holder of a certificate evidencing the shares of New PPC Common Stock bearing such legend may present such certificate to the transfer agent for such securities for exchange for one or more new certificates not bearing such legend or for transfer to a new holder without such legend at such time as (i) such securities are sold pursuant to an effective registration statement under the Securities Act or (ii) such holder delivers to the issuer of such securities an opinion of counsel reasonably satisfactory to the issuer to the effect that such securities are no longer subject to the restrictions applicable to “underwriters” under section 1145 of the Bankruptcy Code or (iii) such holder delivers to the issuer an opinion of counsel reasonably satisfactory to such issuer to the effect that (x) such securities are no longer subject to the restrictions pursuant to an exemption under the Securities Act and such securities may be sold without registration under the Securities Act or (y) such transfer is exempt from registration under the Securities Act, in which event the certificate issued to the transferee will not bear such legend.

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A RECIPIENT OF SECURITIES MAY BE AN UNDERWRITER OR AN AFFILIATE OF THE REORGANIZED DEBTORS, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN SECURITIES TO BE DISTRIBUTED PURSUANT TO THE PLAN. ACCORDINGLY, THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF SECURITIES CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

#### **B. Issuance and Resale of JBS USA Common Stock**

JBS USA and the Debtors believe that the potential exchange of Reorganized PPC common stock for JBS USA Common Stock under the circumstances provided in the Plan and summarized above will satisfy the requirements of section 1145(a) of the Bankruptcy Code. Under the terms of the SPA, the Debtors and the Plan Sponsor have agreed to seek a finding of the Bankruptcy Court in the Confirmation Order that this potential exchange of New PPC Common Stock will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

#### **C. Listing**

PPC intends to apply to have the New PPC Common Stock listed on a national securities exchange, such as The New York Stock Exchange or The Nasdaq Stock Market. In order to cause the New PPC Common Stock to be so-listed, each of PPC and the Plan Sponsor will use their reasonable best efforts to obtain approval for such listing on The New York Stock Exchange or, if such approval is not reasonably likely to be obtained by the Effective Date, such other national securities exchange as PPC reasonably determines. Following any such listing, PPC and the Plan Sponsor will use their respective commercially reasonable efforts to cause Reorganized PPC to comply with all applicable continued listing standards of the applicable exchange so that the New PPC Common Stock will continue to be listed and traded thereon, except that the Plan Sponsor will have no obligation to ensure the share price or market value of New PPC Common Stock is sufficient to maintain the listing of such shares.



## XI.

### ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

#### A. Liquidation Under Chapter 7

If no chapter 11 plan can be confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. As set forth in the liquidation analysis in Exhibit G hereof, the Debtors believe that liquidation under chapter 7 would result in smaller distributions being made to holders of general unsecured claims than those provided for in the Plan and no distributions to equity holders because (a) the likelihood that other assets of the Debtors would have to be sold or otherwise disposed of in a less orderly fashion, (b) additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals and (c) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations.

#### B. Alternative Plan

If the Plan is not confirmed, the Debtors or any other party in interest (if the Debtors' exclusive period in which to file a plan of reorganization has expired) could attempt to formulate a different plan of reorganization. Such a plan might involve a reorganization and continuation of the Debtors' business on a standalone basis (i.e., without participation of a Plan Sponsor), a sale of the Debtors as a going concern, or an orderly liquidation of the Debtors' assets under chapter 11. The Debtors have examined these various alternatives in connection with the process involved in the formulation and development of the Plan, and have concluded that the Plan enables creditors and equity holders to realize the most value under the circumstances. In a liquidation under chapter 11, the Debtors would still incur the expenses associated with winding down the estates and selling assets. The process would be carried out in a more orderly fashion over a greater period of time than a chapter 7 liquidation, and if a trustee were not appointed, because such appointment is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than those incurred in a chapter 7 case. Although preferable to a chapter 7 liquidation, the Debtors believe, however, that liquidation under chapter 11 is a much less attractive alternative to creditors and equity holders than the Plan because of the greater return provided by the Plan.

#### C. Staying in Chapter 11

In addition, instead of formulating a different plan of reorganization, the Debtors could remain in chapter 11. If the Debtors remain in chapter 11, they could continue to operate their businesses and manage their properties as debtors in possession, but they would remain subject to the restrictions imposed by the Bankruptcy Code. It is not clear whether the Debtors could survive as a going concern in protracted Chapter 11 Cases. In particular, the current DIP Credit Agreement expires on December 1, 2009. The Debtors could have difficulty obtaining extending the DIP Credit Agreement or obtaining new financing to sustain the day-to-day operational requirements of their businesses, including the increased restructuring costs resulting from protracted chapter 11 cases.

## XII.

### VOTING PROCEDURES AND REQUIREMENTS

#### A. Solicitation Package

Accompanying this Disclosure Statement are, among other things, copies of (i) the Plan (Exhibit A); (ii) the notice of, among other things, the deadline for submitting ballots to accept or reject the Plan (the “Ballots”); the date, time and place of the hearing considering confirmation of the Plan and matters related thereto; and the deadline for filing objections to the confirmation of the Plan; and (iii) for those entitled to vote, one or more Ballots to be used in voting to accept or reject the Plan.

#### B. Voting Procedures

Detailed voting instructions are provided with the Ballot accompanying this Disclosure Statement. Under the Bankruptcy Code, creditors are not entitled to vote if their contractual rights are unimpaired by the Plan or if they will receive no property under the Plan. All Classes of Claims are unimpaired under the Plan and are not entitled to vote. Only Class 10(a) (Equity Interests in PPC) is entitled to vote to accept or reject the Plan.

If your Equity Interest is not in this class, you are not entitled to vote and you will not receive a Ballot with this Disclosure Statement. If your Equity Interest is in this class and is Allowed, you are entitled to vote and should read your Ballot and follow the listed instructions carefully. Please use only the Ballot that accompanies this Disclosure Statement.

If (1) you have any questions about (a) the procedures for voting your Equity Interest, (b) the packet of materials you received, or (c) the amount of your Claim or Equity Interest holding, or (2) you wish to obtain an additional copy of the Plan, Disclosure Statement or any exhibits/schedules thereto, please contact Kurtzman Carson Consultants LLC, the Debtors’ solicitation and balloting agent, at (888) 830-4659.

#### C. Voting/Election Deadline

After carefully reviewing the Plan, this Disclosure Statement and (if you are entitled to vote) the detailed instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by checking the appropriate box in the enclosed Ballot. Please note that the Ballot for Equity Interests in PPC also contains a separate vote to accept or reject the STIP and the LTIP, both of which are described in more detail in Section VII(D)(4). Please complete and sign your Ballot (copies will not be accepted) and return it in the envelope provided. You must provide all of the information requested by the appropriate Ballot. Failure to do so may result in disqualification of your vote on such Ballot. Each Ballot has been coded to reflect the class of Equity Interests it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement.

In order for your vote to be counted, your Ballot (or the Master Ballot cast on your behalf) must be actually *received* by the voting agents at the following address before the Voting Deadline of [ ], on [ ]:

Pilgrim's Pride Ballot Processing Center  
c/o Kurtzman Carson Consultants LLC  
2335 Alaska Avenue  
El Segundo, CA 90245

If a Ballot is damaged or lost, you may contact the Debtors' voting agents at the numbers set forth above. Any Ballot that is executed and returned but which does not indicate an acceptance or rejection of the Plan will not be counted. Any Ballot received after the voting deadline will not be counted. If the return envelope included with your Solicitation Package is addressed to your Nominee, please allow enough time for your Nominee to submit your vote on a Master Ballot. Ballots or copies of Ballots should not be delivered to the Debtors or the Committees or their respective counsel.

**D. Vote Required for Acceptance by a Class**

Under the Bankruptcy Code, acceptance of a plan of reorganization by a class of Equity Interests is determined by calculating the amount of the Allowed Equity Interests voting to accept, based on the actual total Allowed Equity Interests voting. Acceptance requires an affirmative vote of at least two-thirds in dollar amount of the Allowed Equity Interests voting.

**XIII.**

**CONFIRMATION OF THE PLAN**

**A. Confirmation Hearing**

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold a hearing on confirmation of a plan of reorganization. The Confirmation Hearing is scheduled for [ ], on [ ], before the Honorable D. Michael Lynn, 501 West Tenth Street, Fort Worth, TX 76102-3643. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the confirmation hearing or any subsequent adjourned confirmation hearing.

**B. Objections to Confirmation**

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan of reorganization. Any objection to confirmation of the Plan must be in writing, must conform to the Federal Rules of Bankruptcy Procedure, must set forth the name of the objector, the nature and amount of Claims or Equity Interests held or asserted by the objector against the particular Debtor or Debtors, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, with a copy to Chambers, together with proof of service thereof, and served upon and received no later than [ ] by: (i) Pilgrim's Pride Corporation, 4585 US Highway 271 North, Pittsburg, Texas 75868-0093 (William K. Snyder, CRO); (ii) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Victoria Vron, Esq.); (iii) Weil, Gotshal & Manges LLP, 200 Crescent Court, Suite 300, Dallas, TX 75201 (Attn: Stephen A. Youngman, Esq.); (iv) the Office of the United States Trustee for the Northern District of Texas, 1100 Commerce Street, Room 976 Dallas, TX 75242 (Attn: Lisa Lambert, Esq. and Erin Schmidt, Esq); (v) Andrews Kurth LLP, 1717 Mainstreet, Suite 3700, Dallas, Texas 75201 (Attn: Jason S. Brookner, Esq. and Jonathan I. Levine, Esq.), and (vi) Brown Rudnick LLP, Seven Times Square, New York, New York 10036 (Attn: Steven D. Pohl, Esq. and Jeremy Coffee, Esq.).

The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served by [ ], Prevailing Central Time, on [\_\_\_\_], 2009, in the manner described in the Disclosure Statement Order attached hereto as Exhibit B.

**UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

**C. Requirements for Confirmation—Consensual Plan**

1. Elements of 1129(a) of the Bankruptcy Code

At the Confirmation Hearing, the Bankruptcy Court will determine whether the confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied, including the following requirements:

- The Plan complies with the applicable provisions of the Bankruptcy Code;
- The Debtors have complied with the applicable provisions of the Bankruptcy Code;
- The Plan has been proposed in good faith and not by any means prohibited by law;
- Any payment made or promised by the Debtors or by a person issuing securities or acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable;
- The Debtors have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer or voting trustee of the Debtors, affiliates of the Debtors participating in the Plan with the Debtors, or a successor to the Debtors under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity holders and with public policy, and the Debtors have disclosed the identity of any insider that will be employed or retained by the Debtors, and the nature of any compensation for such insider;
- With respect to each class of claims or equity interests, each holder of an impaired claim or impaired equity interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's claim or equity interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtors were liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test" below;
- Unless the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each class of claims or equity interests has either accepted the Plan or is not impaired under the Plan;
- Unless the holder of a particular claim has agreed to a different treatment of such claim, the Plan provides that allowed undisputed Administrative Expense and

Allowed Other Priority Claims will be paid in full on the Effective Date and that Allowed Priority Tax Claims will receive on account of such claims deferred Cash payments, over a period not exceeding six (6) years after the date of assessment of such claims, of a value, as of the Effective Date, equal to the allowed amount of such claims;

- At least one class of impaired claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a claim in such class;
- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further of financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of “Feasibility” below;
- All fees payable under section 1930 of title 28, as determined by the Bankruptcy Court at the Confirmation Hearing, have been paid, or the Plan provides for the payment of all such fees on the Effective Date; and
- The Plan provides for the continuation after the Effective Date of payment of all retiree benefits (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to subsection 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of the Plan, for the duration of the period the Debtors have obligated themselves to provide such benefits.

#### **D. Best Interests Tests/Liquidation Analysis**

As described above, section 1129(a)(7)(A) of the Bankruptcy Code requires that each holder of an impaired claim or equity interests either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

As stated in Section VI above, the Debtors will pay all creditors in full with interest. Since the Plan provides for full payment to creditors and a certain recovery to holders of Allowed Equity Interests, the amount proposed to be paid is not less than the amount creditors and stakeholders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. In fact, as reflected in the Liquidation Analysis attached hereto as Exhibit G, holders of impaired Claims and Equity Interests would receive less in a chapter 7 liquidation than under the Plan.

#### **E. Feasibility**

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared projections described in section IV above. Based upon such projections, the Debtors believe that they will be able to make all payments required pursuant to the Plan, and therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

## **F. Requirements for Confirmation—Non-Consensual Plan**

The Bankruptcy Court may confirm a plan of reorganization over the rejection or deemed rejection of the plan of reorganization by a class of claims or equity interests if the plan of reorganization “does not discriminate unfairly” and is “fair and equitable” with respect to such class.

### **1. No Unfair Discrimination**

This test applies to classes of claims or equity interests that are of equal priority and are receiving different treatment under the Plan. The test does not require that the treatment be the same or equivalent, but that such treatment be “fair.”

The Debtors believe that under the Plan all impaired classes of Claims and Equity Interests are treated in a manner that is fair and consistent with the treatment of other classes of Claims and Equity Interests having the same priority. Accordingly, the Debtors believe the Plan does not discriminate unfairly as to any impaired class of Claims or Equity Interests.

### **2. Fair and Equitable Test**

This test applies to classes of different priority and status (e.g., secured versus unsecured) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. The test sets forth different standards for what is fair and equitable, depending on the type of claims or interests in such class. In order to demonstrate that a plan is fair and equitable, the plan proponent must demonstrate:

- *Secured Creditors.* With respect to a class of secured claims, the plan provides: (i) that the holders of secured claims retain their liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder’s interest in the estate’s interest in such property, or (ii) for the sale, subject to section 363 of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (i) or (iii) of this paragraph, or (iii) that the holders of secured claims receive the “indubitable equivalent” of their allowed secured claim.
- *Unsecured Creditors.* With respect to a class of unsecured claims: (i) the plan provides that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (ii) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property, except that in a case in which the debtor is an individual, the debtor may retain property included in the estate under section 1115, subject to the requirements of subsection (a)(14) of section 1129.
- *Holders of Equity Interests.* With respect to a class of equity interests: (i) the plan provides that each holder of an equity interest receive or retain on account of

such interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest, or (ii) the holder of any interest that is junior to the interests of the class of equity interests will not receive or retain under the plan on account of such junior interest any property.

The Debtors believe the Plan will satisfy the “fair and equitable” requirement.

**G. Reservation of “Cram Down” Rights**

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan of reorganization over the dissent of any class of claims or equity interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes – often referred to as “cram down” – is an important part of the reorganization process. It assures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

The Debtors each reserve the right to seek confirmation of the Plan, notwithstanding the rejection of the Plan by Class 10(a) (Equity Interests in PPC).

**XIV.**

**CONCLUSION AND RECOMMENDATION**

The Debtors believe the Plan is in the best interests of all creditors and equity holders and urge the holders of impaired claims in Class 10(a) (Equity Interests in PPC) to vote to accept the Plan and to evidence such acceptance by returning their Ballots in accordance with the instructions accompanying the Disclosure Statement.

Dated: September 17, 2009  
Fort Worth, Texas

Respectfully submitted,

PILGRIM'S PRIDE CORPORATION

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

PFS DISTRIBUTION COMPANY

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

PPC TRANSPORTATION COMPANY

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

TO-RICOS, LTD.

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer



TO-RICOS DISTRIBUTION, LTD.

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

PILGRIM'S PRIDE CORPORATION OF WEST VIRGINIA,  
INC.

By: /s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

PPC MARKETING, LTD.

By: Pilgrim's Pride Corporation  
Its General Partner

/s/ Richard A. Cogdill  
Name: Richard A. Cogdill  
Title: Chief Financial Officer

Counsel:

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Attorneys for Debtors and  
Debtors in Possession

**EXHIBIT A**

**The Plan**  
**(to be filed as a separate document)**

**EXHIBIT B**

**Entered Disclosure Statement Order**

**EXHIBIT C**

**Form 10-K (and amendment thereto)**

# PILGRIMS PRIDE CORP

4845 US HWY. 271 N.  
PITTSBURG, TX 75686  
903. 434.1402

## 10-K

**PILGRIM'S PRIDE CORPORATION**  
Filed on 12/11/2008 - Period: 12/11/2008  
File Number 001-09273



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 27, 2008  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File number 1-9273



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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

4845 US Hwy 271 North  
Pittsburg, Texas  
(Address of principal executive offices)

75686-0093  
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value \$0.01

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12B-2 of the Exchange Act.

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

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

The aggregate market value of the Registrant's Common Stock, \$0.01 par value, held by non-affiliates of the Registrant as of March 29, 2008, was \$829,596,309. For purposes of the foregoing calculation only, all directors, executive officers and 5% beneficial owners have been deemed affiliates.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Number of shares of the Registrant's Common Stock outstanding as of December 11, 2008, was 74,055,733.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 2009 annual meeting of stockholders are incorporated by reference into Part III.

PILGRIM'S PRIDE CORPORATION  
FORM 10-K  
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## PART I

### Item 1. Business

Pilgrim's Pride Corporation ("Pilgrim's Pride" or the "Company") operates on the basis of a 52/53-week fiscal year that ends on the Saturday closest to September 30. The reader should assume any reference we make to a particular year (for example, 2008) in this report applies to our fiscal year and not the calendar year.

#### Chapter 11 Bankruptcy Filings

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

Effective December 1, 2008, the New York Stock Exchange 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."

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 Debtor Subsidiaries organized in the United States (the "US Subsidiaries") to enter into a Post-Petition Credit Agreement (the "DIP Credit Agreement") among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent, and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the 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 Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended ("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 historic levels of profitability and, in the near term, restructure its obligations in a manner that allows it to obtain confirmation of a plan of reorganization by the Bankruptcy Court.

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. The Company 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.

## General Development of Business

### Overview

The Company, which was incorporated in Texas in 1968 and re-incorporated in Delaware in 1986, is the successor to a partnership founded in 1946 that operated a retail feed store. Over the years, the Company grew as the result of expanding markets, increased market penetration and various acquisitions of farming operations and poultry processors. This included the significant acquisitions in 2004 and 2007 discussed below. Pilgrim's Pride is one of the largest chicken companies in the United States ("US"), Mexico and Puerto Rico. The Company's prepared chicken products meet the needs of some of the largest customers in the food service industry across the US. Under the well-established Pilgrim's Pride brand name, 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. 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. We believe this vertical integration has made us one of the highest-quality producers of chicken in North America.

We have consistently applied a long-term business strategy of focusing our growth efforts on the historically higher-value prepared chicken products and have become a recognized industry leader in this market. Accordingly, we focused our sales efforts on the foodservice industry, principally chain restaurants and food processors. More recently, we also focused our sales efforts on retailers seeking value-added products. In 2008, we sold 8.4 billion pounds of dressed chicken and generated net sales of \$8.5 billion. In 2008, our US operations, including Puerto Rico, accounted for 93.2% of our net sales. Our Mexico operations generated the remaining 6.8% of our net sales.

#### Recent Business Acquisition Activities

In December 2006, we acquired a majority of the outstanding common stock of Gold Kist Inc. ("Gold Kist") through a tender offer. We subsequently acquired all remaining Gold Kist shares and, in January 2007, Gold Kist became our wholly owned subsidiary. Gold Kist operated a fully-integrated chicken production business that included live production, processing, marketing and distribution. This acquisition positioned us as the largest chicken company in the US, and that position provided us with opportunities to expand our geographic reach and customer base and further pursue value-added and prepared chicken opportunities.

In November 2003, we completed the purchase of all the outstanding stock of the corporations represented as the ConAgra Foods, Inc. chicken division ("ConAgra Chicken"). The acquisition provided us with additional lines of specialty prepared chicken products, well-known brands, well-established distributor relationships, and processing facilities located in the southeastern region of the US. The acquisition also included the largest distributor of chicken products in Puerto Rico.

#### Financial Information about Segments

We operate in two reportable business segments as (i) a producer and seller of chicken products and (ii) a seller of other products. See a discussion of our business segments in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Narrative Description of Business

##### Products and Markets

Our chicken products consist primarily of:

- (1) Fresh chicken products, which are refrigerated (non-frozen) whole or cut-up chickens sold to the foodservice industry either pre-marinated or non-marinated. Fresh chicken also includes prepackaged case-ready chicken, which includes various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer's fresh meat counter.
- (2) Prepared chicken products, which are products such as 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.
- (3) Export and other chicken products, which are primarily parts and whole chicken, either refrigerated or frozen for US export or domestic use, and prepared chicken products for US export.

Our chicken products are sold primarily to:

- (1) Retail customers, which are customers such as grocery store chains, wholesale clubs and other retail distributors. We sell to our retail customers branded, pre-packaged, cut-up and whole poultry, and fresh refrigerated or frozen whole chicken and chicken parts in trays, bags or other consumer packs.
- (2) Foodservice customers, which are customers such as chain restaurants, food processors, foodservice distributors and certain other institutions. We sell products to our foodservice customers ranging from portion-controlled refrigerated chicken parts to fully-cooked and frozen, breaded or non-breaded chicken parts or formed products.
- (3) Export and other product customers, who purchase chicken products for export to Eastern Europe, including Russia; the Far East, including China; Mexico; and other world markets. Our export and other chicken products, with the exception of our exported prepared chicken products, consist of whole chickens and chicken parts sold primarily in bulk, non-branded form, either refrigerated to distributors in the US or frozen for distribution to export markets.

Our other products consist of:

- (1) Other types of meat along with various other staples purchased and sold by our distribution centers as a convenience to our chicken customers who purchase through the distribution centers.
- (2) The production and sale of table eggs, commercial feeds and related items, live hogs and proteins.

The following table sets forth, for the periods beginning with 2004, net sales attributable to each of our primary product lines and markets served with those products. We based the table on our internal sales reports and their classification of product types and customers.

	2008 (52 weeks)	2007 <sup>(a)</sup> (52 weeks)	2006 (52 weeks)	2005 (52 weeks)	2004 <sup>(a)</sup> (53 weeks)
	(In thousands)				
US chicken:					
Prepared chicken:					
Foodservice	\$ 2,033,489	\$ 1,897,643	\$ 1,567,297	\$ 1,622,901	\$ 1,647,904
Retail	518,576	511,470	308,486	283,392	213,775
Total prepared chicken	2,552,065	2,409,113	1,875,783	1,906,293	1,861,679
Fresh chicken:					
Foodservice	2,550,339	2,280,057	1,388,451	1,509,189	1,328,883
Retail	1,041,446	975,659	496,560	612,081	653,798
Total fresh chicken	3,591,785	3,255,716	1,885,011	2,121,270	1,982,681
Export and other:					
Export:					
Prepared chicken	94,795	83,317	64,338	59,473	34,735
Fresh chicken	818,239	559,429	257,823	303,150	212,611
Total export <sup>(c)</sup>	913,034	642,746	322,161	362,623	247,346
Other chicken by-products	20,163	20,779	15,448	21,083	(b)
Total export and other	933,197	663,525	337,609	383,706	247,346
Total US chicken	7,077,047	6,328,354	4,098,403	4,411,269	4,091,706
Mexico chicken	543,583	488,466	418,745	403,353	362,442
Total chicken	7,620,630	6,816,820	4,517,148	4,814,622	4,454,148
Other products:					
US	869,850	661,115	618,575	626,056	600,091
Mexico	34,632	20,677	17,006	20,759	23,232
Total other products	904,482	681,792	635,581	646,815	623,323
Total net sales	<u>\$ 8,525,112</u>	<u>\$ 7,498,612</u>	<u>\$ 5,152,729</u>	<u>\$ 5,461,437</u>	<u>\$ 5,077,471</u>
Total prepared chicken	\$ 2,646,860	\$ 2,492,430	\$ 1,940,121	\$ 1,965,766	\$ 1,896,414

- (a) The Gold Kist acquisition on December 27, 2006 and the ConAgra Chicken acquisition on November 23, 2003 have been accounted for as purchases.
- (b) The Export and other category historically included the sales of certain chicken by-products sold in international markets as well as the export of chicken products. Prior to 2005, by-product sales were not specifically identifiable within the Export and other category. Accordingly, a detail breakout is not available prior to such time; however, the Company believes that the relative split between these categories as shown in 2005 would not be dissimilar in 2004.
- (c) Export items include certain chicken parts that have greater value in the overseas markets than in the US.



The following table sets forth, beginning with 2004, the percentage of net US chicken sales attributable to each of our primary product lines and the markets serviced with those products. We based the table and related discussion on our internal sales reports and their classification of product types and customers.

	2008	2007(a)	2006	2005	2004(a)
Prepared chicken:					
Foodservice	28.8%	30.1%	38.2%	36.8%	40.3%
Retail	7.3%	8.1%	7.5%	6.4%	5.2%
Total prepared chicken	36.1%	38.2%	45.7%	43.2%	45.5%
Fresh chicken:					
Foodservice	36.0%	36.0%	33.9%	34.2%	32.5%
Retail	14.7%	15.4%	12.1%	13.9%	16.0%
Total fresh chicken	50.7%	51.4%	46.0%	48.1%	48.5%
Export and other:					
Export:					
Prepared chicken	1.3%	1.3%	1.6%	1.3%	0.8%
Fresh chicken	11.6%	8.8%	6.3%	6.9%	5.2%
Total export(c)	12.9%	10.1%	7.9%	8.2%	6.0%
Other chicken by-products	0.3%	0.3%	0.4%	0.5%	(b)
Total export and other	13.2%	10.4%	8.3%	8.7%	6.0%
Total US chicken	100.0%	100.0%	100.0%	100.0%	100.0%
Total prepared chicken as a percent of US chicken	37.4%	39.5%	47.3%	44.5%	46.3%

- (a) The Gold Kist acquisition on December 27, 2006 and the ConAgra Chicken acquisition on November 23, 2003 have been accounted for as purchases.
- (b) The Export and other category historically included the sales of certain chicken by-products sold in international markets as well as the export of chicken products. Prior to 2005, by-product sales were not specifically identifiable within the Export and other category. Accordingly, a detail breakout is not available prior to such time; however, the Company believes that the relative split between these categories as shown in 2005 would not be dissimilar in 2004.
- (c) Export items include certain chicken parts that have greater value in the overseas markets than in the US.

#### UNITED STATES

##### Product Types

**Fresh Chicken Overview.** Our fresh chicken business is an important component of our sales and accounted for \$3,591.8 million, or 50.7%, of our total US chicken sales for 2008. In addition to maintaining sales of mature, traditional fresh chicken products, our strategy has been to shift the mix of our US fresh chicken products by continuing to increase sales of faster-growing products, such as marinated whole chicken and chicken parts, and to continually shift portions of this product mix into the higher-value prepared chicken category.

Most fresh chicken products are sold to established customers, based upon certain weekly or monthly market prices reported by the US Department of Agriculture ("USDA") and other public price reporting services, plus a markup, which is dependent upon the customer's location, volume, product specifications and other factors. We believe our practices with respect to sales of fresh chicken are generally consistent with those of our competitors. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for the products or set a price according to formulas based on an underlying commodity market, subject in many cases to minimum and maximum prices.

**Prepared Chicken Overview.** During 2008, \$2,522.1 million of our US chicken sales were in prepared chicken products to foodservice customers and retail distributors, as compared to \$1,861.7 million in 2004. These numbers reflect the impact of our historical strategic focus for growth in the prepared chicken markets and our acquisition of Gold Kist. The market for prepared chicken products has experienced, and we believe will continue to experience, greater growth and higher average sales prices than fresh chicken products. Also, the production and sale in the US of prepared chicken products reduce the impact of the costs of feed ingredients on our profitability. Feed ingredient costs are the single largest component of our total US cost of sales, representing approximately 38.1% of our total US cost of sales for 2008. The production of feed ingredients is positively or negatively affected primarily by the global level of supply inventories, demand for feed ingredients, the agricultural policies of the US and foreign governments and weather patterns throughout the world. As further processing is performed, feed ingredient costs become a decreasing percentage of a product's total production cost, thereby reducing their impact on our profitability. Products sold in this form enable us to charge a premium, reduce the impact of feed ingredient costs on our profitability and improve and stabilize our profit margins.

We establish prices for our prepared chicken products based primarily upon perceived value to the customer, production costs and prices of competing products. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for the products or set a price according to formulas based on an underlying commodity market, subject in many cases to minimum and maximum prices. Many times, these prices are dependent upon the customer's location, volume, product specifications and other factors.

**Export and Other Chicken Products Overview.** Our export and other products consist of whole chickens and chicken parts sold primarily in bulk, non-branded form, either refrigerated to distributors in the US or frozen for distribution to export markets, and branded and non-branded prepared chicken products for distribution to export markets. In 2008, approximately \$933.2 million, or 13.2%, of our total US chicken sales were attributable to US chicken export and other products. These exports and other products, other than the prepared chicken products, have historically been characterized by lower prices and greater price volatility than our more value-added product lines.

## Markets for Chicken Products

**Foodservice.** The foodservice market principally consists of chain restaurants, food processors, broad-line distributors and certain other institutions located throughout the continental US. We supply chicken products ranging from portion-controlled refrigerated chicken parts to fully-cooked and frozen, breaded or non-breaded chicken parts or formed products.

We believe the Company is positioned to be the primary or secondary supplier to national and international chain restaurants who require multiple suppliers of chicken products. Additionally, we believe we are well suited to be the sole supplier for many regional chain restaurants. Regional chain restaurants often offer better margin opportunities and a growing base of business.

We believe we have operational strengths in terms of full-line product capabilities, high-volume production capacities, research and development expertise and extensive distribution and marketing experience relative to smaller and non-vertically integrated producers. While the overall chicken market has grown consistently, we believe the majority of this growth in recent years has been in the foodservice market. According to the National Chicken Council, from 2003 through 2007, sales of chicken products to the foodservice market grew at a compounded annual growth rate of approximately 7.5%, versus 6.6% growth for the chicken industry overall. Foodservice growth, outside of any temporary effects resulting from the current recessionary impacts being experienced in the US, is anticipated to continue as food-away-from-home expenditures continue to outpace overall industry rates. According to Technomic Information Services, food-away-from-home expenditures grew at a compounded annual growth rate of approximately 4.9% from 2003 through 2007 and are projected to grow at a 4.8% compounded annual growth rate from 2008 through 2012. Due to internal growth and the impact of both the Gold Kist and ConAgra Chicken acquisitions, our sales to the foodservice market from 2004 through 2008 grew at a compounded annual growth rate of 11.4% and represented 64.8% of the net sales of our US chicken operations in 2008.

**Foodservice—Prepared Chicken.** Our prepared chicken sales to the foodservice market were \$2,033.5 million in 2008 compared to \$1,647.9 million in 2004, a compounded annual growth rate of approximately 5.4%. In addition to the significant increase in sales created by the acquisition of Gold Kist, we attribute this growth in sales of prepared chicken to the foodservice market to a number of factors:

- There has been significant growth in the number of foodservice operators offering chicken on their menus and in the number of chicken items offered.
- Foodservice operators are increasingly purchasing prepared chicken products, which allow them to reduce labor costs while providing greater product consistency, quality and variety across all restaurant locations.

- There is a strong need among larger foodservice companies for a limited-source supplier base in the prepared chicken market. A viable supplier must be able to ensure supply, demonstrate innovation and new product development and provide competitive pricing. We have been successful in our objective of becoming a supplier of choice by being the primary or secondary prepared chicken supplier to many large foodservice companies because:
  - ⌚ We are vertically integrated, giving us control over our supply of chicken and chicken parts;
  - ⌚ Our further processing facilities, with a wide range of capabilities, are particularly well suited to the high-volume production as well as low-volume custom production runs necessary to meet both the capacity and quality requirements of the foodservice market; and
  - ⌚ We have established a reputation for dependable quality, highly responsive service and excellent technical support.
- As a result of the experience and reputation developed with larger customers, we have increasingly become the principal supplier to mid-sized foodservice organizations.
- Our in-house product development group follows a customer-driven research and development focus designed to develop new products to meet customers' changing needs. Our research and development personnel often work directly with institutional customers in developing products for these customers.
- We are a leader in utilizing advanced processing technology, which enables us to better meet our customers' needs for product innovation, consistent quality and cost efficiency.

**Foodservice—Fresh Chicken.** We produce and market fresh, refrigerated chicken for sale to US quick-service restaurant chains, delicatessens and other customers. These chickens have the giblets removed, are usually of specific weight ranges and are usually pre-cut to customer specifications. They are often marinated to enhance value and product differentiation. By growing and processing to customers' specifications, we are able to assist quick-service restaurant chains in controlling costs and maintaining quality and size consistency of chicken pieces sold to the consumer. Our fresh chicken products sales to the foodservice market were \$2,550.3 million in 2008 compared to \$1,328.9 million in 2004, a compounded annual growth rate of approximately 17.7%.

**Retail.** The retail market consists primarily of grocery store chains, wholesale clubs and other retail distributors. We concentrate our efforts in this market on sales of branded, prepackaged cut-up and whole chicken and chicken parts to grocery store chains and retail distributors. For a number of years, we have invested in both trade and retail marketing designed to establish high levels of brand name awareness and consumer preferences.

We utilize numerous marketing techniques, including advertising, to develop and strengthen trade and consumer awareness and increase brand loyalty for consumer products marketed under the Pilgrim's Pride® brand. Our co-founder, Lonnie "Bo" Pilgrim, is the featured spokesperson in our television, radio and print advertising, and a trademark cameo of a person wearing a Pilgrim's hat serves as the logo on all of our primary branded products. As a result of this marketing strategy, Pilgrim's Pride® is a well-known brand name in a number of markets. We believe our efforts to achieve and maintain brand awareness and loyalty help to provide more secure distribution for our products. We also believe our efforts at brand awareness generate greater price premiums than would otherwise be the case in certain markets. We also maintain an active program to identify consumer preferences. The program primarily consists of discovering and validating new product ideas, packaging designs and methods through sophisticated qualitative and quantitative consumer research techniques in key geographic markets.

Due to internal growth and the impact of both the Gold Kist and ConAgra Chicken acquisitions, our sales to the retail market from 2004 through 2008 grew at a compounded annual growth rate of 15.8% and represented 22.0% of the net sales of our US chicken operations in 2008.

**Retail—Prepared Chicken.** We sell retail-oriented prepared chicken products primarily to grocery store chains located throughout the US. Our prepared chicken products sales to the retail market were \$518.6 million in 2008 compared to \$213.8 million in 2004, a compounded annual growth rate of approximately 24.8%. We believe that our growth in this market segment will continue as retailers concentrate on satisfying consumer demand for more products that are quick, easy and convenient to prepare at home.

**Retail—Fresh Chicken.** Our prepackaged retail products include various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer's fresh meat counter. Our retail fresh chicken products are sold in the midwestern, southwestern, southeastern and western regions of the US. Our fresh chicken sales to the retail market were \$1,041.4 million in 2008 compared to \$653.8 million in 2004, a compounded annual growth rate of approximately 12.3% resulting primarily from our acquisition of Gold Kist in 2007. We believe the retail prepackaged fresh chicken business will continue to be a large and relatively stable market, providing opportunities for product differentiation and regional brand loyalty.

**Export and Other Chicken Products.** Our export and other chicken products, with the exception of our exported prepared chicken products, consist of whole chickens and chicken parts sold primarily in bulk, non-branded form either refrigerated to distributors in the US or frozen for distribution to export markets. In the US, prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the USDA or other public price reporting services. We sell US-produced chicken products for export to Eastern Europe, including Russia; the Far East, including China; Mexico; and other world markets.

Historically, we have targeted international markets to generate additional demand for our dark chicken meat, which is a natural by-product of our US operations given our concentration on prepared chicken products and the US customers' general preference for white chicken meat. We have also begun selling prepared chicken products for export to the international divisions of our US chain restaurant customers. We believe that US chicken exports will continue to grow as worldwide demand increases for high-grade, low-cost meat protein sources. Also included in this category are chicken by-products, which are converted into protein products and sold primarily to manufacturers of pet foods.

#### Markets for Other Products

We have regional distribution centers located in Arizona, Texas and Utah that are primarily focused on distributing our own chicken products; however, the distribution centers also distribute certain poultry and non-poultry products purchased from third parties to independent grocers and quick-service restaurants. Our non-chicken distribution business is conducted as an accommodation to our customers and to achieve greater economies of scale in distribution logistics. Chicken sales from our regional distribution centers are included in the chicken sales amounts contained in the above tables; however, all non-chicken sales amounts are contained in the Other Products sales in the above tables.

We market fresh eggs under the Pilgrim's Pride® brand name, as well as under private labels, in various sizes of cartons and flats to US retail grocery and institutional foodservice customers located primarily in Texas. We have a housing capacity for approximately 2.1 million commercial egg laying hens which can produce approximately 42 million dozen eggs annually. US egg prices are determined weekly based upon reported market prices. The US egg industry has been consolidating over the last few years, with the 25 largest producers accounting for more than 65% of the total number of egg laying hens in service during 2008. We compete with other US egg producers primarily on the basis of product quality, reliability, price and customer service.

We market a high-nutrient egg called EggsPlus". This egg contains high levels of Omega-3 and Omega-6 fatty acids along with Vitamin E, making the egg a heart-friendly product. Our marketing of EggsPlus" has received national recognition for our progress in being an innovator in the "functional foods" category.

We produce and sell livestock feeds at our feed mill in Mt. Pleasant, Texas and at our farm supply store in Pittsburg, Texas to dairy farmers and livestock producers in northeastern Texas. We engage in similar sales activities at our other US feed mills.

We also have a small pork operation that we acquired through the Gold Kist acquisition that raises and sells live hogs to processors.

## MEXICO

### Background

The Mexico market represented approximately 6.8% of our net sales in 2008. We are the second-largest producer and seller of chicken in Mexico. We believe that we are one of the lower-cost producers of chicken in Mexico.

### Product Types

While the market for chicken products in Mexico is less developed than in the US, with sales attributed to fewer, more basic products, we have been successful in differentiating our products through high-quality client service and product improvements such as dry-air chilled, eviscerated products. The supermarket chains consider us the leader in innovation for fresh products. The market for value-added products is increasing. Our strategy is to capitalize on this trend through our vast US experience in both products and quality and our well-known service.

### Markets

We sell our chicken products primarily to wholesalers, large restaurant chains, fast food accounts, supermarket chains and direct retail distribution in selected markets. We have national presence and are currently present in all but 2 of the 32 Mexican States, which in total represent 99.7% of the Mexican population.

### Foreign Operations Risks

Our foreign operations pose special risks to our business and operations. A discussion of foreign operations risks is included in Item 1A. "Risk Factors."

## GENERAL

### Competitive Conditions

The chicken industry is highly competitive and our largest US competitor has greater financial and marketing resources than we do. In addition, our liquidity constraints have had a negative effect on our competitive position, relative to our competitors that are less highly leveraged. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." In the US, Mexico and Puerto Rico, we compete principally with other vertically integrated poultry companies. We are one of the largest producers of chicken in the US, Mexico and Puerto Rico, and the second largest producer in Mexico. The second largest producer in the US is Tyson Foods, Inc. The largest producer in Mexico is Industrias Bachoco S.A.B. de C.V.

In general, the competitive factors in the US chicken industry include price, product quality, product development, brand identification, breadth of product line and customer service. Competitive factors vary by major market. In the US retail market, we believe that product quality, brand awareness, customer service and price are the primary bases of competition. In the foodservice market, competition is based on consistent quality, product development, service and price. There is some competition with non-vertically integrated further processors in the US prepared chicken business. We believe vertical integration generally provides significant, long-term cost and quality advantages over non-vertically integrated further processors.

In Mexico, where product differentiation has traditionally been limited, product quality, service and price have been the most critical competitive factors. In July 2003, the US and Mexico entered into a safeguard agreement with regard to imports into Mexico of chicken leg quarters from the US. Under this agreement, a tariff rate for chicken leg quarters of 98.8% of the sales price was established. This tariff was imposed because of concerns that the duty-free importation of such products as provided by the North American Free Trade Agreement would injure Mexico's poultry industry. This tariff rate was eliminated on January 1, 2008. As a result of the elimination of this tariff, we expect greater amounts of chicken to be imported into Mexico from the US. This could negatively affect the profitability of Mexican chicken producers, including our Mexico operations.

We are not a significant competitor in the distribution business as it relates to products other than chicken. We distribute these products solely as a convenience to our chicken customers. The broad-line distributors do not consider us to be a factor in those markets. The competition related to our other products such as table eggs, feed and protein are much more regionalized and no one competitor is dominant.

#### Key Customers

Our two largest customers accounted for approximately 16% of our net sales in 2008, and our largest customer, Wal-Mart Stores Inc., accounted for 11% of our net sales.

#### Regulation and Environmental Matters

The chicken industry is subject to government regulation, particularly in the health and environmental areas, including provisions relating to the discharge of materials into the environment, by the Centers for Disease Control, the USDA, the Food and Drug Administration ("FDA") and the Environmental Protection Agency ("EPA") in the US and by similar governmental agencies in Mexico. Our chicken processing facilities in the US are subject to on-site examination, inspection and regulation by the USDA. The FDA inspects the production of our feed mills in the US. Our Mexican food processing facilities and feed mills are subject to on-site examination, inspection and regulation by a Mexican governmental agency that performs functions similar to those performed by the USDA and FDA. We believe that we are in substantial compliance with all applicable laws and regulations relating to the operations of our facilities.



We anticipate increased regulation by the USDA concerning food safety, by the FDA concerning the use of medications in feed and by the EPA and various other state agencies concerning discharges to the environment. Although we do not anticipate any regulations having a material adverse effect upon us, a material adverse effect may occur.

#### Employees and Labor Relations

As of September 27, 2008, we employed approximately 44,750 persons in the US and approximately 5,000 persons in Mexico. There are 13,771 employees at various facilities in the US who are members of collective bargaining units. In Mexico, 2,832 employees are covered by collective bargaining agreements. We have not experienced any work stoppage at any location in over five years. We believe our relations with our employees are satisfactory. At any given time, we will be in some stage of contract negotiation with various collective bargaining units.

#### Financial Information about Foreign Operations

The Company's foreign operations are in Mexico. Geographic financial information is set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Available Information; NYSE CEO Certification

The Company's Internet website is <http://www.pilgrimspride.com>. The Company makes available, free of charge, through its Internet website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Directors and Officers Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the Securities and Exchange Commission. The public may read and copy any materials that the Company files with the Securities and Exchange Commission at its Public Reference Room at 100 F Street, NE, Washington, DC 20549 and may obtain information about the operation of the Public Information Room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

In addition, the Company makes available, through its Internet website, the Company's Business Code of Conduct and Ethics, Corporate Governance Guidelines and the written charter of the Audit Committee, each of which is available in print to any stockholder who requests it by contacting the Secretary of the Company at 4845 US Highway 271 North, Pittsburg, Texas 75686-0093.

As required by the rules of the New York Stock Exchange ("NYSE"), the Company submitted its unqualified Section 303A.12(a) Co-Principal Executive Officers Certification for the preceding year to the NYSE.

We included the certifications of the Co-Principal Executive Officers and the Chief Financial Officer of the Company required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of the Company's public disclosure, in this report on Form 10-K as Exhibits 31.1, 31.2 and 31.3.

## Executive Officers

Set forth below is certain information relating to our current executive officers:

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Lonnie "Bo" Pilgrim	80	Senior Chairman of the Board
Lonnie Ken Pilgrim	50	Chairman of the Board
J. Clinton Rivers	49	President, Chief Executive Officer, and Director
Richard A. Cogdill	48	Chief Financial Officer, Secretary, Treasurer and Director
Robert A. Wright	54	Chief Operating Officer
William K. Snyder	49	Chief Restructuring Officer

Lonnie "Bo" Pilgrim has served as Senior Chairman of the Board since July 2007. He served as Chairman of the Board since the organization of Pilgrim's Pride in July 1968 until July 2007. He also served as Chief Executive Officer from July 1968 to June 1998. Prior to the incorporation of Pilgrim's Pride, Mr. Pilgrim was a partner in its predecessor partnership business founded in 1946.

Lonnie Ken Pilgrim has served as Chairman of the Board since July 2007. Mr. Pilgrim served as Chairman of the Board and Interim President from January 2008 to March 2008. He served as Executive Vice President, Assistant to Chairman from November 2004 until July 2007, and he served as Senior Vice President, Transportation from August 1997 to November 2004. Prior to that, he served as Vice President. He has been a member of the Board of Directors since March 1985, and he has been employed by Pilgrim's Pride since 1977. He is a son of Lonnie "Bo" Pilgrim.

J. Clinton Rivers has served as President, Chief Executive Officer and Director since March 2008. Mr. Rivers served as Chief Operating Officer from October 2004 to March 2008. He served as Executive Vice President of Prepared Food Operations from November 2002 to October 2004. Mr. Rivers was the Senior Vice President of Prepared Foods Operations from 1999 to November 2002, and was the Vice President of Prepared Foods Operations from 1992 to 1999. From 1989 to 1992, he served as Plant Manager of the Mount Pleasant, Texas Production Facility. Mr. Rivers joined Pilgrim's Pride in 1986 as the Quality Assurance Manager, and also held positions at Perdue Farms and Golden West Foods.

Richard A. Cogdill has served as Chief Financial Officer, Secretary and Treasurer since January 1997. Mr. Cogdill became a Director in September 1998. Previously he served as Senior Vice President, Corporate Controller, from August 1992 through December 1996 and as Vice President, Corporate Controller from October 1991 through August 1992. Prior to October 1991, he was a Senior Manager with Ernst & Young LLP. Mr. Cogdill is a Certified Public Accountant.

Robert A. Wright has served as Chief Operating Officer since April 2008. Mr. Wright served as Executive Vice President of Sales and Marketing from June 2004 to April 2008. He served as Executive Vice President, Turkey Division from October 2003 to June 2004. Prior to October 2003, Mr. Wright served as President of Butterball Turkey Company for five years.

William K. Snyder has served as Chief Restructuring Officer since November 2008. Mr. Snyder has served as a Managing Partner of CRG Partners Group, LLC ("CRG"), a provider of corporate turnaround and restructuring services, since 2001. Mr. Snyder will continue to be employed by CRG and will perform service as Chief Restructuring Officer of the Company through CRG. In connection with his position as Managing Partner of CRG, Mr. Snyder served as court-appointed examiner of Mirant Corporation, Corporate Responsible Partner of Furr's Restaurant Group Inc., Chief Financial Officer of Reliant Building Products Inc., and as a senior executive officer of a number of private companies. Previously, Mr. Snyder was president of his own financial consulting company, The Snyder Company.

#### Item 1A. Risk Factors

##### Forward Looking Statements

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "plan," "project," "imply," "intend," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include those described under "Risk Factors" below and elsewhere in this Annual Report on Form 10-K.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes in information contained in previous filings or communications. The risks described below are not the only risks we face, and additional risks and uncertainties may also impair our business operations. The occurrence of any one or more of the following or other currently unknown factors could materially adversely affect our business and operating results.

##### Risk Factors

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, operations, industry or financial position or our future financial performance. While we believe we have identified and discussed below the most significant risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, operations, industry, financial position and financial performance in the future.

Chapter 11 Filing. We filed for protection under Chapter 11 of the Bankruptcy Code on December 1, 2008.

During our Chapter 11 proceedings, our operations, including our ability to execute our business plan, are subject to the risks and uncertainties associated with bankruptcy. Risks and uncertainties associated with our Chapter 11 proceedings include the following:

- Actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings may be inconsistent with our plans;
- Our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
- Our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- Our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain contracts that are critical to our operations;
- Our ability to retain management and other key individuals; and
- Risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events or publicity associated with our Chapter 11 proceedings could adversely affect our sales and relationships with our customers, as well as with vendors and employees, which in turn could adversely affect our operations and financial condition, particularly if the Chapter 11 proceedings are protracted. Also, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond timely to certain events or take advantage of certain opportunities.

Because of the risks and uncertainties associated with our Chapter 11 proceedings, the ultimate impact that events that occur during these proceedings will have on our business, financial condition and results of operations cannot be accurately predicted or quantified. We cannot provide any assurance as to what values, if any, will be ascribed in our bankruptcy proceedings to our various pre-petition liabilities, common stock and other securities. As a result of Chapter 11 proceedings, our currently outstanding common stock could have no value and may be canceled under any plan of reorganization we might propose and, therefore, we believe that the value of our various pre-petition liabilities and other securities is highly speculative. Accordingly, caution should be exercised with respect to existing and future investments in any of these liabilities or securities.

Our stock is no longer listed on a national securities exchange. It will likely be more difficult for stockholders and investors to sell our common stock or to obtain accurate quotations of the share price of our common stock.

Effective December 1, 2008, the NYSE delisted our common stock from trading. Our stock is now traded over the counter and is quoted on the Pink Sheet Electronic Quotation Service ("Pink Sheets"). We can provide no assurance that we will be able to re-list our common stock on a national securities exchange or that the stock will continue being traded on the Pink Sheets. The trading of our common stock over the counter negatively impacts the trading price of our common stock and the levels of liquidity available to our stockholders. In addition, securities that trade on the Pink Sheets are not eligible for margin loans and make our common stock subject to the provisions of Rule 15c-9 of the Securities Exchange Act of 1934, commonly referred to as the "penny stock rule." In connection with the delisting of our stock, there may also be other negative implications, including the potential loss of confidence in our Company by suppliers, customers and employees and the loss of institutional investor interest in our common stock.

**Substantial Leverage.** Our substantial indebtedness could adversely affect our financial condition.

We currently have a substantial amount of indebtedness, which could adversely affect our financial condition and could have important consequences to you and we are not in compliance with covenants in a substantial portion of our indebtedness. Our indebtedness:

- Makes it more difficult for us to satisfy our obligations under our debt securities;
- Increases our vulnerability to general adverse economic conditions;
- Limits our ability to obtain necessary financing and to fund future working capital, capital expenditures and other general corporate requirements;
- Requires us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- Limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- Places us at a competitive disadvantage compared to our competitors that have less debt;
- Limits our ability to pursue acquisitions and sell assets; and
- Limits, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds. Failing to comply with those covenants could result in an event of default or require redemption of indebtedness. Either of these events could have a material adverse effect on us.

Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future, which is dependent on various factors. These factors include the commodity prices of feed ingredients and chicken and general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

**Liquidity.** Our liquidity position imposes significant risks to our operations.

Because of the public disclosure of our liquidity constraints, our ability to maintain normal credit terms with our suppliers has become impaired. We have been required to pay cash in advance to certain vendors and have experienced restrictions on the availability of trade credit, which has further reduced our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future. In addition, due to public perception of our financial condition and results of operations, in particular with regard to our potential failure to meet our debt obligations, some customers have become reluctant to enter into long-term agreements with us.

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. As of December 6, 2008, the applicable borrowing base was approximately \$324.8 million and the amount available for borrowings under the DIP Credit Agreement was \$210.9 million. There can be no assurance that the amounts of cash from operations together with amounts available under our DIP Credit Agreement will be sufficient to fund operations. In the event that cash flows and available borrowings under the DIP Credit Agreement are not sufficient to meet our liquidity requirements, we may be required to seek additional financing. There can be no assurance that such additional financing would be available or, if available, offered on acceptable terms. Failure to secure any necessary additional financing would have a material adverse impact on our operations. For additional information on our liquidity, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

**Asset Impairments.** The Company may be required to record an impairment on its long-lived assets.

If the Company is unable to return to profitability, we may be required to record an impairment on tangible assets such as facilities and equipment as well as intangible assets such as intellectual property, which would have a negative impact on our financial results.

**Cyclicality and Commodity Prices.** Industry cyclicality can affect our earnings, especially due to fluctuations in commodity prices of feed ingredients and chicken.

Profitability in the chicken industry is materially affected by the commodity prices of feed ingredients and chicken, which are determined by supply and demand factors. As a result, the chicken industry is subject to cyclical earnings fluctuations.

The production of feed ingredients is positively or negatively affected primarily by the global level of supply inventories and demand for feed ingredients, the agricultural policies of the United States and foreign governments and weather patterns throughout the world. In particular, weather patterns often change agricultural conditions in an unpredictable manner. A significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and our ability to obtain feed ingredients, grow chickens or deliver products.

The cost of corn and soybean meal, our primary feed ingredients, increased significantly from August 2006 to July 2008, before moderating by the date of this report, and there can be no assurance that the price of corn or soybean meal will not significantly rise again as a result of, among other things, increasing demand for these products around the world and alternative uses of these products, such as ethanol and biodiesel production.

High feed ingredient prices have had, and may continue to have, a material adverse effect on our operating results, which has resulted in, and may continue to result in, additional non-cash expenses due to impairment of the carrying amounts of certain of our assets. We periodically seek, to the extent available, to enter into advance purchase commitments or financial derivative contracts for the purchase of feed ingredients in an effort to manage our feed ingredient costs. The use of such instruments may not be successful.

Livestock and Poultry Disease, including Avian Influenza. Outbreaks of livestock diseases in general and poultry diseases in particular, including avian influenza, can significantly affect our ability to conduct our operations and demand for our products.

We take precautions designed to ensure that our flocks are healthy and that our processing plants and other facilities operate in a sanitary and environmentally-sound manner. However, events beyond our control, such as the outbreaks of disease, either in our own flocks or elsewhere, could significantly affect demand for our products or our ability to conduct our operations. Furthermore, an outbreak of disease could result in governmental restrictions on the import and export of our fresh chicken or other products to or from our suppliers, facilities or customers, or require us to destroy one or more of our flocks. This could also result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our ability to market our products successfully and on our business, reputation and prospects.

During the first half of 2006, there was substantial publicity regarding a highly pathogenic strain of avian influenza, known as H5N1, which has been affecting Asia since 2002 and which has also been found in Europe and Africa. It is widely believed that H5N1 is being spread by migratory birds, such as ducks and geese. There have also been some cases where H5N1 is believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease.

Although highly pathogenic H5N1 has not been identified in North America, there have been outbreaks of low pathogenic strains of avian influenza in North America, and in Mexico outbreaks of both high and low-pathogenic strains of avian influenza are a fairly common occurrence. Historically, the outbreaks of low pathogenic avian influenza have not generated the same level of concern, or received the same level of publicity or been accompanied by the same reduction in demand for poultry products in certain countries as that associated with the highly pathogenic H5N1 strain. Accordingly, even if the highly pathogenic H5N1 strain does not spread to North or Central America, there can be no assurance that it will not materially adversely affect demand for North or Central American produced poultry internationally and/or domestically, and, if it were to spread to North or Central America, there can be no assurance that it would not significantly affect our ability to conduct our operations and/or demand for our products, in each case in a manner having a material adverse effect on our business, reputation and/or prospects.

**Contamination of Products.** If our poultry products become contaminated, we may be subject to product liability claims and product recalls.

Poultry products may be subject to contamination by disease-producing organisms, or pathogens, such as *Listeria monocytogenes*, *Salmonella* and generic *E.coli*. These pathogens are generally found in the environment, and, as a result, there is a risk that they, as a result of food processing, could be present in our processed poultry products. These pathogens can also be introduced as a result of improper handling at the further processing, foodservice or consumer level. These risks may be controlled, although not eliminated, by adherence to good manufacturing practices and finished product testing. We have little, if any, control over proper handling once the product has been shipped. Illness and death may result if the pathogens are not eliminated at the further processing, foodservice or consumer level. Even an inadvertent shipment of contaminated products is a violation of law and may lead to increased risk of exposure to product liability claims, product recalls and increased scrutiny by federal and state regulatory agencies and may have a material adverse effect on our business, reputation and prospects.

In October 2002, one product sample produced in our Franconia, Pennsylvania facility that had not been shipped to customers tested positive for *Listeria*. We later received information from the USDA suggesting environmental samples taken at the facility had tested positive for both the strain of *Listeria* identified in the product and a strain having characteristics similar to those of the strain identified in a Northeastern *Listeria* outbreak. As a result, we voluntarily recalled all cooked deli products produced at the plant from May 1, 2002 through October 11, 2002. We carried insurance designed to cover the direct recall related expenses and certain aspects of the related business interruption caused by the recall.



**Product Liability.** Product liability claims or product recalls can adversely affect our business reputation and expose us to increased scrutiny by federal and state regulators.

The packaging, marketing and distribution of food products entail an inherent risk of product liability and product recall and the resultant adverse publicity. We may be subject to significant liability if the consumption of any of our products causes injury, illness or death. We could be required to recall certain of our products in the event of contamination or damage to the products. In addition to the risks of product liability or product recall due to deficiencies caused by our production or processing operations, we may encounter the same risks if any third party tampers with our products. We cannot assure you that we will not be required to perform product recalls, or that product liability claims will not be asserted against us, in the future. Any claims that may be made may create adverse publicity that would have a material adverse effect on our ability to market our products successfully or on our business, reputation, prospects, financial condition and results of operations.

If our poultry products become contaminated, we may be subject to product liability claims and product recalls. There can be no assurance that any litigation or reputational injury associated with product recalls will not have a material adverse effect on our ability to market our products successfully or on our business, reputation, prospects, financial condition and results of operations.

**Insurance.** We are exposed to risks relating to product liability, product recall, property damage and injuries to persons for which insurance coverage is expensive, limited and potentially inadequate.

Our business operations entail a number of risks, including risks relating to product liability claims, product recalls, property damage and injuries to persons. We currently maintain insurance with respect to certain of these risks, including product liability insurance, property insurance, workers compensation insurance, business interruption insurance and general liability insurance, but in many cases such insurance is expensive, difficult to obtain and no assurance can be given that such insurance can be maintained in the future on acceptable terms, or in sufficient amounts to protect us against losses due to any such events, or at all. Moreover, even though our insurance coverage may be designed to protect us from losses attributable to certain events, it may not adequately protect us from liability and expenses we incur in connection with such events. For example, the losses attributable to our October 2002 recall of cooked deli products produced at one of our facilities significantly exceeded available insurance coverage. Additionally, in the past, two of our insurers encountered financial difficulties and were unable to fulfill their obligations under the insurance policies as anticipated and, separately, two of our other insurers contested coverage with respect to claims covered under policies purchased, forcing us to litigate the issue of coverage before we were able to collect under these policies.

Significant Competition. Competition in the chicken industry with other vertically integrated poultry companies may make us unable to compete successfully in these industries, which could adversely affect our business.

The chicken industry is highly competitive. In both the US and Mexico, we primarily compete with other vertically integrated chicken companies.

In general, the competitive factors in the US chicken industry include:

- Price;
- Product quality;
- Product development;
- Brand identification;
- Breadth of product line; and
- Customer service.

Competitive factors vary by major market. In the foodservice market, competition is based on consistent quality, product development, service and price. In the US retail market, we believe that competition is based on product quality, brand awareness, customer service and price. Further, there is some competition with non-vertically integrated further processors in the prepared chicken business. In addition, our filing for protection under Chapter 11 of the Bankruptcy Code and the associated risks and uncertainties may be used by competitors in an attempt to divert our existing customers or may discourage future customers from purchasing our products under long-term arrangements.

In Mexico, where product differentiation has traditionally been limited, product quality and price have been the most critical competitive factors. The North American Free Trade Agreement eliminated tariffs for chicken and chicken products sold to Mexico on January 1, 2003. However, in July 2003, the US and Mexico entered into a safeguard agreement with regard to imports into Mexico of chicken leg quarters from the US. Under this agreement, a tariff rate for chicken leg quarters of 98.8% of the sales price was established. On January 1, 2008, the tariff was eliminated. In connection with the elimination of those tariffs in Mexico, increased competition from chicken imported into Mexico from the US may have a material adverse effect on the Mexican chicken industry in general, and on our Mexican operations in particular.

**Loss of Key Customers.** The loss of one or more of our largest customers could adversely affect our business.

Our two largest customers accounted for approximately 16% of our net sales in 2008, and our largest customer, Wal-Mart Stores Inc., accounted for 11% of our net sales. Our filing for protection under Chapter 11 of the Bankruptcy Code and the associated risks and uncertainties may affect our customers' perception of our business and increase our risk of losing key customers. Our business could suffer significant setbacks in revenues and operating income if we lost one or more of our largest customers, or if our customers' plans and/or markets should change significantly.

**Continued Integration of Gold Kist.** There can be no assurance that Gold Kist can be combined successfully with our business.

In evaluating the terms of our acquisition of Gold Kist, we analyzed the respective businesses of the Company and Gold Kist and made certain assumptions concerning their respective future operations. A principal assumption was that the acquisition will produce operating results better than those historically experienced or expected to be experienced in the future by us in the absence of the acquisition. There can be no assurance, however, that this assumption is correct or that any remaining separate businesses of the Company and Gold Kist will be successfully integrated in a timely manner.

**Synergies of Gold Kist.** There can be no assurance that we will achieve anticipated synergies from our acquisition of Gold Kist.

We consummated the Gold Kist acquisition with the expectation that it will result in beneficial synergies, such as cost savings and enhanced growth. Success in realizing these benefits and the timing of this realization depend upon the successful integration of the operations of Gold Kist into the Company, and upon general and industry-specific economic factors. The integration of two independent companies has been and remains a complex, costly and time-consuming process. The difficulties of combining the operations of the companies include, among others:

- Transitioning and preserving Gold Kist's customer, contractor, supplier and other important third-party relationships;
- Integrating corporate and administrative infrastructures;
- Coordinating sales and marketing functions;
- Minimizing the diversion of management's attention from ongoing business concerns;
- Coordinating geographically separate organizations; and
- Retaining key employees.

Even if we are able to effectively integrate the remaining operations of Gold Kist into our existing operations, there can be no assurance that the anticipated synergies will be achieved.

**Assumption of Unknown Liabilities in Acquisitions.** Assumption of unknown liabilities in acquisitions may harm our financial condition and operating results.

We do not currently intend to make any acquisition in the near future. However, if we do, acquisitions may be structured in such a manner that would result in the assumption of unknown liabilities not disclosed by the seller or uncovered during pre-acquisition due diligence. For example, our acquisition of Gold Kist was structured as a stock purchase. In that acquisition we assumed all of the liabilities of Gold Kist, including liabilities that may be unknown. These obligations and liabilities could harm our financial condition and operating results.

**Foreign Operations Risks.** Our foreign operations pose special risks to our business and operations.

We have significant operations and assets located in Mexico and may participate in or acquire operations and assets in other foreign countries in the future. Foreign operations are subject to a number of special risks, including among others:

- Currency exchange rate fluctuations;
- Trade barriers;
- Exchange controls;
- Expropriation; and
- Changes in laws and policies, including those governing foreign-owned operations.

Currency exchange rate fluctuations have adversely affected us in the past. Exchange rate fluctuations or one or more other risks may have a material adverse effect on our business or operations in the future.

Our operations in Mexico are conducted through subsidiaries organized under the laws of Mexico. We may rely in part on intercompany loans and distributions from our subsidiaries to meet our obligations. Claims of creditors of our subsidiaries, including trade creditors, will generally have priority as to the assets of our subsidiaries over our claims. Additionally, the ability of our Mexican subsidiaries to make payments and distributions to us will be subject to, among other things, Mexican law. In the past, these laws have not had a material adverse effect on the ability of our Mexican subsidiaries to make these payments and distributions. However, laws such as these may have a material adverse effect on the ability of our Mexican subsidiaries to make these payments and distributions in the future.

**Disruptions in International Markets and Distribution Channels.** Disruptions in international markets and distribution channels could adversely affect our business.

Historically, we have targeted international markets to generate additional demand for our chicken dark meat, specifically leg quarters, which are a natural by-product of our US operations, given our concentration on prepared chicken products and the US customers' general preference for white meat. As part of this initiative, we have created a significant international distribution network into several markets, including Eastern Europe, including Russia; the Far East, including China; and Mexico. Our success in these markets could be, and in recent periods has been, adversely affected by disruptions in poultry export markets. These disruptions are often caused by restrictions on imports of US-produced poultry products imposed by foreign governments for a variety of reasons, including the protection of their domestic poultry producers and allegations of consumer health issues, and may also be caused by outbreaks of disease such as avian influenza, either in our own flocks or elsewhere in the world, and resulting changes in consumer preferences. There can be no assurance that one or more of these or other disruptions in our international markets and distribution channels will not adversely affect our business.

**Government Regulation.** Regulation, present and future, is a constant factor affecting our business.

Our operations are subject to federal, state and local governmental regulation, including in the health, safety and environmental areas. We anticipate increased regulation by various agencies concerning food safety, the use of medication in feed formulations and the disposal of poultry by-products and wastewater discharges.

Also, changes in laws or regulations or the application thereof may lead to government enforcement actions and the resulting litigation by private litigants. We are aware of an industry-wide investigation by the Wage and Hour Division of the US Department of Labor to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on such activities such as donning and doffing work equipment. We have been named a defendant in a number of related suits brought by employees. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, it is possible that we may be subject to additional employee claims.

Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect our business or operations in the future.

**Immigration Legislation and Enforcement.** New immigration legislation or increased enforcement efforts in connection with existing immigration legislation could cause our costs of doing business to increase, cause us to change the way in which we do business or otherwise disrupt our operations.

Immigration reform continues to attract significant attention in the public arena and the United States Congress. If new federal immigration legislation is enacted or if states in which we do business enact immigration laws, such laws may contain provisions that could make it more difficult or costly for us to hire United States citizens and/or legal immigrant workers. In such case, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, despite our past and continuing efforts to hire only United States citizens and/or persons legally authorized to work in the United States, we are unable to ensure that all of our employees are United States citizens and/or persons legally authorized to work in the United States. US Immigration and Customs Enforcement has recently been investigating identity theft within our workforce. With our cooperation, during 2008 US Immigration and Customs Enforcement arrested approximately 350 of our employees believed to have engaged in identity theft at five of our facilities. No assurances can be given that further enforcement efforts by governmental authorities will not disrupt a portion of our workforce or our operations at one or more of our facilities, thereby negatively impacting our business.

**Key Employee Retention.** Loss of essential employees could have a significant negative impact on our business.

Our success is largely dependent on the skills, experience, and efforts of our management and other employees. Our deteriorating financial performance, along with our Chapter 11 proceedings, creates uncertainty that could lead to an increase in unwanted attrition. The loss of the services of one or more members of our senior management or of numerous employees with essential skills could have a negative effect on our business, financial condition and results of operations. If we are not able to attract talented, committed individuals to fill vacant positions when needs arise, it may adversely affect our ability to achieve our business objectives.

**Extreme Weather and Natural Disasters.** Extreme weather or natural disasters could negatively impact our business.

Extreme weather or natural disasters, including droughts, floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of our flocks, production or availability of feed ingredients, or interfere with our operations due to power outages, fuel shortages, damage to our production and processing facilities or disruption of transportation channels, among other things. Any of these factors could have an adverse effect on our financial results.

**Control of Voting Stock.** Control over the Company is maintained by affiliates and members of the family of Lonnie "Bo" Pilgrim.

As described in more detail in Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," through two limited partnerships and related trusts and voting agreements, Lonnie "Bo" Pilgrim, Patricia R. Pilgrim, his wife, and Lonnie Ken Pilgrim, his son, control 62.25% of the voting power of our outstanding common stock. Accordingly, they control the outcome of all actions requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of the Company or its assets. This ensures their ability to control the foreseeable future direction and management of the Company. In addition, an event of default under certain agreements related to our indebtedness will occur if Lonnie "Bo" Pilgrim and certain members of his family cease to own at least a majority of the voting power of the outstanding common stock.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

**Operating Facilities**

We operate 31 poultry processing plants located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia. We have one chicken processing plant in Puerto Rico and three chicken processing plants in Mexico.

The US chicken processing plants have weekly capacity to process 43.0 million broilers and operated at 90.7% of capacity in 2008.

Our Mexico facilities have the capacity to process 3.27 million broilers per week and operated at 82% of capacity in 2008. Our Puerto Rico processing plant has the capacity to process 0.3 million birds per week based on one eight-hour shift per day. For segment reporting purposes, we include Puerto Rico with our US operations.

In the US, the processing plants are supported by 41 hatcheries, 29 feed mills and 12 rendering plants. The hatcheries, feed mills and rendering plants operated at 88%, 85% and 69% of capacity, respectively, in 2008. In Puerto Rico, the processing plant is supported by one hatchery and one feed mill which operated at 82% and 80% of capacity, respectively, in 2008. In Mexico, the processing plants are supported by six hatcheries, four feed mills and two rendering facilities. The Mexico hatcheries, feed mills and rendering facilities operated at 97%, 84% and 69% of capacity, respectively, in 2008.

We also operate eleven prepared chicken plants. These plants are located in Alabama, Georgia, Louisiana, Pennsylvania, South Carolina, Tennessee, Texas and West Virginia. These plants have the capacity to produce approximately 1,453 million pounds of further processed product per year and in 2008 operated at approximately 90% of capacity.

#### Other Facilities and Information

We own a partially automated distribution freezer located outside of Pittsburg, Texas, which includes 125,000 square feet of storage area. We operate a commercial egg operation and farm store in Pittsburg, Texas, a commercial feed mill in Mt. Pleasant, Texas and a pork grow-out operation in Jefferson, Georgia. We own office buildings in Pittsburg, Texas and Atlanta, Georgia, which house our executive offices, our Logistics and Customer Service offices and our general corporate functions as well as an office building in Mexico City, which houses our Mexican marketing offices, and an office building in Broadway, Virginia, which houses additional sales and marketing, research and development, and support activities. We lease offices in Dallas, Texas and Duluth, Georgia, which house additional sales and marketing and support activities.

We have five regional distribution centers located in Arizona, Texas, and Utah, one of which we own and four of which we lease.

Most of our domestic property, plant and equipment is pledged as collateral on our long-term debt and credit facilities. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

#### Item 3. Legal Proceedings

As discussed in Part I above, on December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business or the actions described below.



On October 29, 2008, Ronald Alcaldo filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled Ronald Alcaldo, Individually and On Behalf of All Others Similarly Situated v. Pilgrim's Pride Corporation, et al, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The complaint alleges that the Company and the individual defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by allegedly failing to disclose that "(a) the Company's hedges to protect it from adverse changes in costs were not working and in fact were harming the Company's results more than helping; (b) the Company's inability to continue to use illegal workers would adversely affect its margins; (c) the Company's financial results were continuing to deteriorate rather than improve, such that the Company's capital structure was threatened; (d) the Company was in a much worse position than its competitors due to its inability to raise prices for consumers sufficient to offset cost increases, whereas its competitors were able to raise prices to offset higher costs affecting the industry; and (e) the Company had not made sufficient changes to its business to succeed in the more difficult industry conditions." Mr. Alcaldo further alleges that he purports to represent a class of all persons or entities who acquired the common stock of the Company from May 5, 2008 through September 24, 2008. The complaint seeks unspecified injunctive relief and an unspecified amount of damages. On November 21, 2008, the Company and the individual defendants filed a Motion to Dismiss the lawsuit for failure to state a claim, failure to plead fraud with particularity, and failure to satisfy the heightened pleading requirements of the Private Securities Litigation Reform Act of 1995. The Company intends to defend vigorously against the merits of the action and any attempts by Alcaldo to certify a class action. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

The Wage and Hour Division of the US Department of Labor conducted an industry-wide investigation to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, employees have brought claims against the Company. The claims filed against the Company as of the date of this report include: "Juan Garcia, et al. v. Pilgrim's Pride Corporation, a/k/a Wampler Foods, Inc.", filed in Pennsylvania state court on January 27, 2006 and subsequently removed to the US District Court for the Eastern District of Pennsylvania; "Esperanza Moya, et al. v. Pilgrim's Pride Corporation and Maxi Staff, LLC", filed March 23, 2006 in the Eastern District of Pennsylvania; "Barry Antee, et al. v. Pilgrim's Pride Corporation" filed April 20, 2006 in the Eastern District of Texas; "Stephania Aaron, et al. v. Pilgrim's Pride Corporation" filed August 22, 2006 in the Western District of Arkansas; "Salvador Aguilar, et al. v. Pilgrim's Pride Corporation" filed August 23, 2006 in the Northern District of Alabama; "Benford v. Pilgrim's Pride Corporation" filed November 2, 2006 in the Northern District of Alabama; "Porter v. Pilgrim's Pride Corporation" filed December 7, 2006 in the Eastern District of Tennessee; "Freida Brown, et al v. Pilgrim's Pride Corporation" filed March 14, 2007 in the Middle District of Georgia, Athens Division; "Roy Menser, et al v. Pilgrim's Pride Corporation" filed February 28, 2007 in the Western District of Paducah, Kentucky; "Victor Manuel Hernandez v. Pilgrim's Pride Corporation" filed January 30, 2007 in the Northern District of Georgia, Rome Division; "Angela Allen et al v. Pilgrim's Pride Corporation" filed March 27, 2007 in United States District Court, Middle District of Georgia, Athens Division; Daisy Hammond and Felicia Pope v. Pilgrim's Pride Corporation, in the Gainesville

Division, Northern District of Georgia, filed on June 6, 2007; Gary Price v. Pilgrim's Pride Corporation, in the US District Court for the Northern District of Georgia, Atlanta Division, filed on May 21, 2007; Kristin Roebuck et al v. Pilgrim's Pride Corporation, in the US District Court, Athens, Georgia, Middle District, filed on May 23, 2007; and Elaine Chao v. Pilgrim's Pride Corporation, in the US District Court, Dallas, Texas, Northern District, filed on August 6, 2007. The plaintiffs generally purport to bring a collective action for unpaid wages, unpaid overtime wages, liquidated damages, costs, attorneys' fees, and declaratory and/or injunctive relief and generally allege that they are not paid for the time it takes to either clear security, walk to their respective workstations, don and doff protective clothing, and/or sanitize clothing and equipment. The presiding judge in the consolidated action in El Dorado issued an initial Case Management order on July 9, 2007. Plaintiffs' counsel filed a Consolidated Amended Complaint and the parties filed a Joint Rule 26(f) Report. A complete scheduling order has not been issued, and discovery has not yet commenced. The parties are currently negotiating the scope of discovery. On March 13, 2008, Judge Barnes issued an opinion and order finding that plaintiffs and potential class members are similarly situated and conditionally certifying the class for a collective action. On May 14, 2008, the Court issued its order modifying and approving the court-authorized notice for current and former employees to opt into the class. Persons who choose to opt into the class are to do so within 90 days after the date on which the first notice was mailed. The opt-in period is now closed. As of October 2, 2008, approximately 12,605 plaintiffs have opted into the class.

As of the date of this report, the following suits have been filed against Gold Kist, now merged into Pilgrim's Pride Corporation, which make one or more of the allegations referenced above: Merrell v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Gainesville Division, filed on December 21, 2006; Harris v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Newnan Division, filed on December 21, 2006; Blanke v. Gold Kist, Inc., in the US District Court for the Southern District of Georgia, Waycross Division, filed on December 21, 2006; Clarke v. Gold Kist, Inc., in the US District Court for the Middle District of Georgia, Athens Division, filed on December 21, 2006; Atchison v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 3, 2006; Carlisle v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 2, 2006; Benbow v. Gold Kist, Inc., in the US District Court for the District of South Carolina, Columbia Division, filed on October 2, 2006; Bonds v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Northwestern Division, filed on October 2, 2006. On April 23, 2007, Pilgrim's filed a Motion to Transfer and Consolidate with the Judicial Panel on Multidistrict Litigation ("JPML") requesting that all of the pending Gold Kist cases be consolidated into one case. Pilgrim's Pride withdrew its Motion subject to the Plaintiffs' counsel's agreement to consolidate the seven separate actions into the pending Benbow case by dismissing those lawsuits and refile/consolidating them into the Benbow action. Motions to Dismiss have been filed in all of the pending seven cases, and all of these cases have been formally dismissed. Pursuant to an agreement between the parties, which was approved by Court-order on June 6, 2007, these cases have been consolidated with the Benbow case. On that date, Plaintiffs were authorized to send notice to individuals regarding the pending lawsuits and were instructed that individuals had three months to file consents to opting in as plaintiffs in the consolidated cases. The opt-in period is now closed. To date, there are approximately 3,006 named plaintiffs and opt-in plaintiffs in the consolidated cases. The Company and Plaintiffs have jointly requested the Court to remove 367 opt-in plaintiffs because they do not fall within

the class definition. The Court recently ordered that Pilgrim's can depose and serve written discovery on the named plaintiffs and approximately 10% of the opt-in class. The Company intends to assert a vigorous defense to the litigation. The amount of ultimate liability with respect to any of these cases cannot be determined at this time.

We are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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:

Quarter	2008 Prices		2007 Prices		Dividends	
	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

Holdings

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.

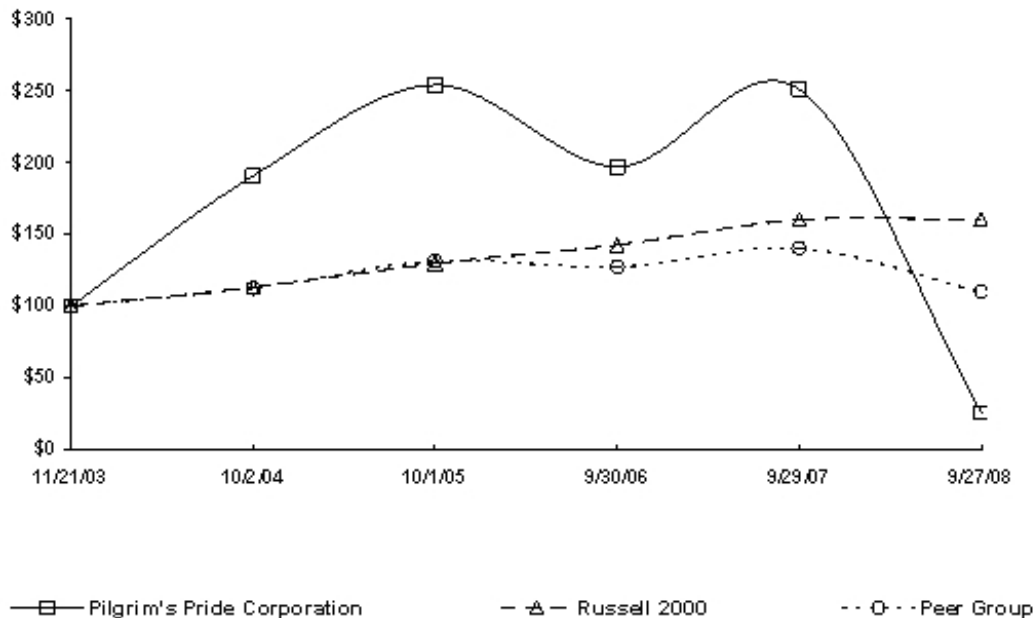
The second graph covers the five years ending September 27, 2008 and shows the performance of the Company's Class A and Class B shares after giving effect to the reclassification into the Company's single class of common stock on November 21, 2003 based on a one to one exchange ratio.

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.

### COMPARISON OF 58 MONTH CUMULATIVE TOTAL RETURN\*

Among Pilgrim's Pride Corporation, The Russell 2000 Index  
 And A Peer Group

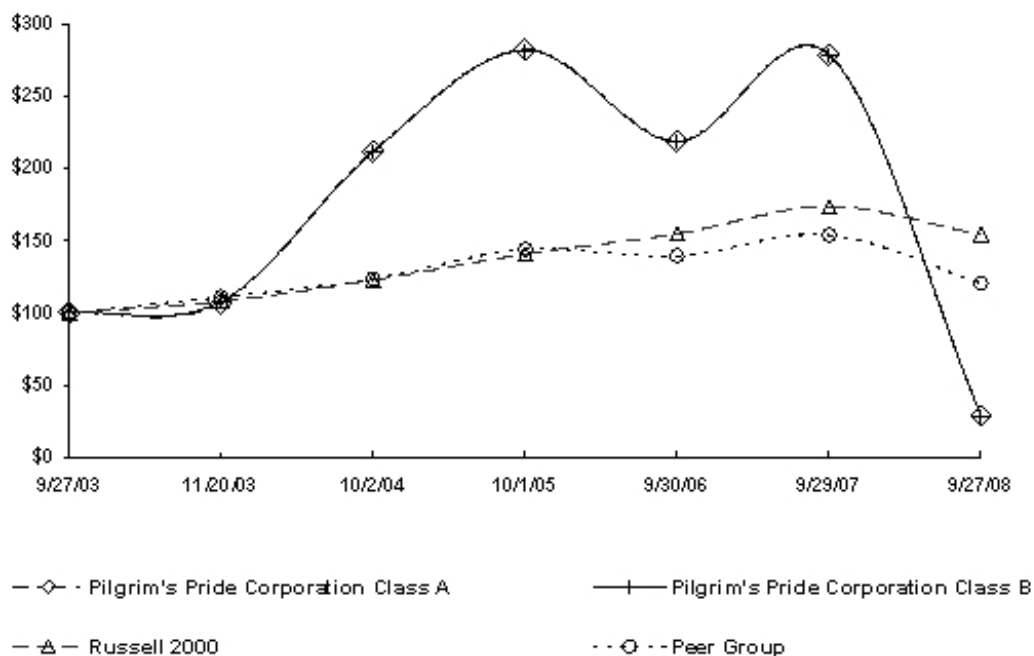


\*\$100 invested on 11/21/03 in stock & index-including reinvestment of dividends.

	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

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Pilgrim's Pride Corporation, The Russell 2000 Index  
 And A Peer Group



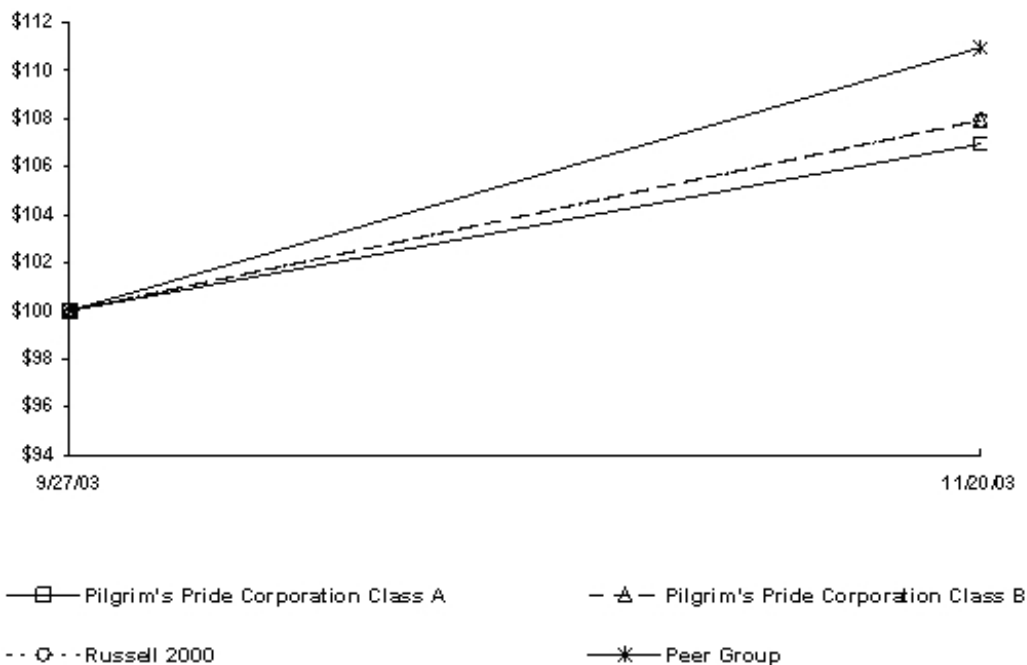
\*\$100 invested on 9/27/03 in stock & index-including reinvestment of dividends.

	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 <sup>(1)</sup>	\$ 100.00	\$ 106.95	\$ 212.12	\$ 282.40	\$ 219.11	\$ 279.00	\$ 28.65
Pilgrim's Pride Corporation Class B <sup>(1)</sup>	\$ 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.

### COMPARISON OF 2 MONTH CUMULATIVE TOTAL RETURN\*

Among Pilgrim's Pride Corporation, The Russell 2000 Index  
And A Peer Group



\*\$100 invested on 9/27/03 in stock & index-including reinvestment of dividends.

	9/27/03		11/20/03	
Pilgrim's Pride Corporation Class A <sup>(1)</sup>	\$	100.00	\$	106.95
Pilgrim's Pride Corporation Class B <sup>(1)</sup>	\$	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)
<b>Income Statement Data:</b>				
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
<b>Per Common Share Data:(h)</b>				
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
<b>Balance Sheet Summary:</b>				
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
<b>Cash Flow Summary:</b>				
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
<b>Other Data:</b>				
EBITDA(i)	\$ (820,878)	\$ 414,139	\$ 143,443	\$ 599,274
<b>Key Indicators (as a percent of net sales):</b>				
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
(In millions)				
Effect on gross profit and operating income:				
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 <sup>(i)</sup>	239,535	203,316	133,710	131,601	106,901
Minus:					
Amortization of capitalized financing costs <sup>(i)</sup>	4,947	6,554	2,606	2,321	1,951
EBITDA	(820,878)	414,139	143,443	<u>\$ 599,274</u>	<u>\$ 486,268</u>
Add:					
Goodwill impairment	501,446	—	—		
Restructuring charges	29,239	—	3,767		
Loss on early extinguishment of debt	—	26,463	—		
Adjusted EBITDA	<u>\$ (290,193)</u>	<u>\$ 440,602</u>	<u>\$ 147,210</u>		

	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 <sup>(i)</sup>	66,266	61,803	50,117	36,027	34,536	32,591
Minus:						
Amortization of capitalized financing costs <sup>(i)</sup>	1,477	1,417	1,860	1,236	1,063	993
EBITDA	<u>\$ 239,997</u>	<u>\$ 112,852</u>	136,604	<u>\$ 115,356</u>	<u>\$ 142,043</u>	<u>\$ 108,268</u>
Add:						
Loss on early extinguishment of debt			1,433			
Adjusted EBITDA			<u>\$ 138,037</u>			

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:

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



- (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	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		Percent of Net Sales	
		Amount	Percent	2008	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)

- (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)			
<b>Chicken:</b>			
United States	\$ (1,135.4)	\$ (1,327.8)	(690.0) %
Mexico	(25.7)	(38.8)	(296.2) %
<b>Total chicken</b>	<b>(1,161.1)</b>	<b>(1,366.6)</b>	<b>(694.8) %</b>
<b>Other products:</b>			
United States	98.9	70.2	245.2 %
Mexico	4.5	1.5	50.0 %
<b>Total other products</b>	<b>103.4</b>	<b>71.7</b>	<b>226.9 %</b>
<b>Total net sales</b>	<b>\$ (1,057.7)</b>	<b>\$ (1,294.9)</b>	<b>(545.9) %</b>

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)
<b>Operating loss</b>	<b>\$ (1,057.7)</b>	<b>\$ (1,294.9)</b>	<b>(545.9) %</b>	<b>(12.4) %</b>	<b>3.2 % (d)</b>



- (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).

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	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.

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		Percent of Net Sales	
		Amount	Percent	2007	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)			
<b>Chicken:</b>			
United States	\$ 192.5	\$ 163.9	572.4 %
Mexico	<u>13.1</u>	<u>31.0</u>	173.0 %
Total chicken	205.6	194.96	1,828.5 %
<b>Other products:</b>			
United States	28.6	29.8	2,502.3 %
Mexico	<u>3.0</u>	<u>1.4</u>	82.7 %
Total other products	31.6	31.2	6,691.5 %
Total net sales	<u>\$ 237.2</u>	<u>\$ 226.1</u>	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	<u>\$ 237.2</u>	<u>\$ 226.1</u>	2,035.9 %	<u>3.2 %</u>	<u>0.2 %</u> (b)

SG&A expenses incurred during 2007 increased from SG&A expenses incurred during 2006 primarily because of the acquisition of Gold Kist on (a)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 TIE 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 TIE 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 TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate 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.



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:

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

- (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.

Item 9A. Controls and Procedures

As of September 27, 2008, an evaluation was performed under the supervision and with the participation of the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that information we are required to disclose in our reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, the Company's management, including the Senior Chairman of the Board, Chief Executive Officer and Chief Financial Officer, identified no other change in the Company's internal control over financial reporting that occurred during the Company's quarter ended September 27, 2008 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Pilgrim's Pride Corporation's ("PPC") management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). PPC's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, PPC's management assessed the design and operating effectiveness of internal control over financial reporting as of September 27, 2008 based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission.

Based on this assessment, management concluded that PPC's internal control over financial reporting was effective as of September 27, 2008. Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of September 27, 2008. That report is included herein.

/s/ Lonnie "Bo" Pilgrim  
Lonnie "Bo" Pilgrim  
Senior Chairman of the Board of Directors

/s/ J. Clinton Rivers  
J. Clinton Rivers  
President,  
Chief Executive Officer  
Director

/s/ Richard A. Cogdill  
Richard A. Cogdill  
Chief Financial Officer,  
Secretary and Treasurer  
Director

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders  
Pilgrim's Pride Corporation

We have audited Pilgrim's Pride Corporation's internal control over financial reporting as of September 27, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Pilgrim's Pride Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pilgrim's Pride Corporation maintained, in all material respects, effective internal control over financial reporting as of September 27, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pilgrim's Pride Corporation as of September 27, 2008 and September 29, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 27, 2008, of Pilgrim's Pride Corporation, and our report dated December 10, 2008, expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas  
December 10, 2008

Item 9B. Other Information

Not applicable.



PART III

Item 10. Directors and Executive Officers and Corporate Governance

Certain information regarding our executive officers has been presented under "Executive Officers" included in Item 1. "Business," above.

Reference is made to the section entitled "Election of Directors" of the Company's Proxy Statement for its 2009 Annual Meeting of Stockholders, which section is incorporated herein by reference.

Reference is made to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement for its 2009 Annual Meeting of Stockholders, which section is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics, which applies to all employees, including our Chief Executive Officer and our Chief Financial Officer and Principal Accounting Officer. The full text of our Code of Business Conduct and Ethics is published on our website, at [www.pilgrimspride.com](http://www.pilgrimspride.com), under the "Investors-Corporate Governance" caption. We intend to disclose future amendments to, or waivers from, certain provisions of this Code on our website within four business days following the date of such amendment or waiver.

See Item 13. "Certain Relationships and Related Transactions, and Director Independence."

Item 11. Executive Compensation

See Item 13. "Certain Relationships and Related Transactions, and Director Independence."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See Item 13. "Certain Relationships and Related Transactions, and Director Independence."

As of September 27, 2008, the Company did not have any compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance by the Company.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Additional information responsive to Items 10, 11, 12 and 13 is incorporated by reference from the sections entitled "Security Ownership," "Board of Directors Independence," "Committees of the Board of Directors," "Election of Directors," "Report of the Compensation Committee," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Certain Transactions" of the Company's Proxy Statement for its 2009 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference from the section entitled "Independent Registered Public Accounting Firm Fee Information" of the Company's Proxy Statement for its 2009 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

- (1) The financial statements and schedules listed in the index to financial statements and schedules on page 3 of this report are filed as part of this report.
- (2) All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable and therefore have been omitted.
- (3) The financial statements schedule entitled "Valuation and Qualifying Accounts and Reserves" is filed as part of this report on page 151.

(b) Exhibits

Exhibit Number

- 2.1 Agreement and Plan of Reorganization dated September 15, 1986, by and among Pilgrim's Pride Corporation, a Texas corporation; Pilgrim's Pride Corporation, a Delaware corporation; and Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston, Evanne Pilgrim, Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Greta Pilgrim Owens and Patrick Wayne Pilgrim (incorporated by reference from Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 2.2 Agreement and Plan of Merger dated September 27, 2000 (incorporated by reference from Exhibit 2 of WLR Foods, Inc.'s Current Report on Form 8-K (No. 000-17060) dated September 28, 2000).
- 2.3 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended October 2, 2004).
- 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 4.4 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004).
- 4.1 Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1).
- 4.2 Amended and Restated Corporate Bylaws of the Company (included as Exhibit 3.2).

- 4.3 Indenture, dated November 21, 2003, between Pilgrim's Pride Corporation and The Bank of New York as Trustee relating to Pilgrim's Pride's 9 1/4% Senior Notes due 2013 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.4 Form of 9 1/4% Note due 2013 (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.5 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.7 Form of 7 5/8% Senior Note due 2015 (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.8 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.9 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.10 Form of 8 3/8% Subordinated Note due 2017 (incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Pilgrim's Industries, Inc. Profit Sharing Retirement Plan, restated as of July 1, 1987 (incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed on July 1, 1992). ☉
- 10.2 Senior Executive Performance Bonus Plan of the Company (incorporated by reference from Exhibit A in the Company's Proxy Statement dated December 13, 1999). ☉
- 10.3 Aircraft Lease Extension Agreement between B.P. Leasing Co. (L.A. Pilgrim, individually) and Pilgrim's Pride Corporation (formerly Pilgrim's Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).

- 10.4 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.5 Commercial Egg Grower Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.6 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q for the three months ended January 2, 1999).
- 10.7 Heavy Breeder Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farms 44, 45 & 46) (incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.8 Broiler Grower Contract dated January 9, 1997 by and between Pilgrim's Pride and O.B. Goolsby, Jr. (incorporated by reference from Exhibit 10.25 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.9 Broiler Grower Contract dated January 15, 1997 by and between Pilgrim's Pride Corporation and B.J.M. Farms (incorporated by reference from Exhibit 10.26 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.10 Broiler Grower Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler (incorporated by reference from Exhibit 10.27 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.11 Purchase and Contribution Agreement dated as of June 26, 1998 between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.34 of the Company's Quarterly Report on Form 10-Q for the three months ended June 27, 1998).
- 10.12 Guaranty Fee Agreement between Pilgrim's Pride Corporation and Pilgrim Interests, Ltd., dated June 11, 1999 (incorporated by reference from Exhibit 10.24 of the Company's Annual Report on Form 10-K for the year ended October 2, 1999).
- 10.13 Commercial Property Lease dated December 29, 2000 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the three months ended December 30, 2000).

- 10.14 Amendment No. 1 dated as of December 31, 2003 to Purchase and Contribution Agreement dated as of June 26, 1998, between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed February 4, 2004).
- 10.15 Employee Stock Investment Plan of the Company (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004). ⑤
- 10.16 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 27, 2004). ⑤
- 10.17 Vendor Service Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.18 Transportation Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.19 Credit Agreement by and among the Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the "Borrower"), Pilgrim's Pride Corporation, certain Mexico subsidiaries of the Borrower, ING Capital LLC, and the lenders signatory thereto dated as of September 25, 2006 (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.20 2006 Amended and Restated Credit Agreement by and among CoBank, ACB, Agriland, FCS and the Company dated as of September 21, 2006 (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.21 First Amendment to the Pilgrim's Pride Corporation Amended and Restated 2005 Deferred Compensation Plan Trust, dated as of November 29, 2006 (incorporated by reference from Exhibit 10.03 of the Company's Current Report on Form 8-K filed on December 05, 2006). ⑤
- 10.22 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 10.23 First Amendment to Credit Agreement, dated as of December 13, 2006, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on December 19, 2006).

- 10.24 Second Amendment to Credit Agreement, dated as of January 4, 2007, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on January 9, 2007).
- 10.25 Fourth Amended and Restated Secured Credit Agreement, dated as of February 8, 2007, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as agent, SunTrust Bank, as syndication agent, U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents, BMO Capital Market, as lead arranger, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.26 Third Amendment to Credit Agreement, dated as of February 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.02 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.27 First Amendment to Credit Agreement, dated as of March 15, 2007, by and among the Borrower, the Company, the Subsidiary Guarantors, ING Capital LLC, and the Lenders (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated March 20, 2007).
- 10.28 Fourth Amendment to Credit Agreement, dated as of July 3, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed July 31, 2007).
- 10.29 Retirement and Consulting Agreement dated as of October 10, 2007, between the Company and Clifford E. Butler (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 10, 2007). ⑤
- 10.30 Fifth Amendment to Credit Agreement, dated as of August 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.39 of the Company's Annual Report on Form 10-K filed on November 19, 2007).

- 10.31 Sixth Amendment to Credit Agreement, dated as of November 7, 2007, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 13, 2007).
- 10.32 Ground Lease Agreement effective February 1, 2008 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 1, 2008).
- 10.33 Seventh Amendment to Credit Agreement, dated as of March 10, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.34 First Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of March 11, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.35 Eighth Amendment to Credit Agreement, dated as of April 30, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.36 Second Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of April 30, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.37 Change to Company Contribution Amount Under the Amended and Restated 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed July 30, 2008). ©
- 10.38 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.39 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 29, 2008).



- 10.40 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.41 Amended and Restated Receivables Purchase Agreement dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.42 Amendment No. 1 dated as of October 10, 2008 to Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto.\*
- 10.43 Amendment No. 2 to Purchase and Contribution Agreement dated as of September 26, 2008 among Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.44 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.45 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.46 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.47 Form of Change in Control Agreement dated as of October 21, 2008 between the Company and certain of its executive officers (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 27, 2008). ©
- 10.48 First Amendment to Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated November 25, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto.\*

- 10.49 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto.\*
- 10.50 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC. \*
- 10.51 Waiver Agreement and Second Amendment to Credit Agreement dated November 30, 2008, by and among the Company and certain non-debtor Mexico subsidiaries of the Company, ING Capital LLC, as agent, and the lenders signatory thereto.\*
- 10.52 Post-Petition Credit Agreement dated December 2, 2008 by and among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent, and the lenders party thereto.\*
- 12 Ratio of Earnings to Fixed Charges for the years ended September 27, 2008, September 29, 2007, September 30, 2006, October 1, 2005, October 2, 2004, and September 27, 2003.\*
- 21 Subsidiaries of Registrant.\*
- 23 Consent of Ernst & Young LLP.\*
- 31.1 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.3 Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\*Filed herewith

Ⓢ Represents a management contract or compensation plan arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 11th day of December 2008.

PILGRIM'S PRIDE CORPORATION

By: /s/ Richard A. Cogdill  
Richard A. Cogdill  
Chief Financial Officer, Secretary and Treasurer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Lonnie "Bo" Pilgrim</u> Lonnie "Bo" Pilgrim	Senior Chairman of the Board	12/11/08
<u>/s/ Lonnie Ken Pilgrim</u> Lonnie Ken Pilgrim	Chairman of the Board	12/11/08
<u>/s/ J. Clinton Rivers</u> J. Clinton Rivers	President Chief Executive Officer and Director	12/11/08
<u>/s/ Richard A. Cogdill</u> Richard A. Cogdill	Chief Financial Officer, Secretary, Treasurer and Director (Principal Financial and Accounting Officer)	12/11/08
<u>/s/ Charles L. Black</u> Charles L. Black	Director	12/11/08
<u>/s/ Linda Chavez</u> Linda Chavez	Director	12/11/08
<u>/s/ S. Key Coker</u> S. Key Coker	Director	12/11/08
<u>/s/ Keith W. Hughes</u> Keith W. Hughes	Director	12/11/08
<u>/s/ Blake D. Lovette</u> Blake D. Lovette	Director	12/11/08

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Vance C. Miller, Sr.</u> Vance C. Miller, Sr.	Director	12/11/08
<u>/s/ James G. Vetter, Jr.</u> James G. Vetter, Jr.	Director	12/11/08
<u>/s/ Donald L. Wass, Ph.D.</u> Donald L. Wass, Ph.D.	Director	12/11/08

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Pilgrim's Pride Corporation

We have audited the accompanying consolidated balance sheets of Pilgrim's Pride Corporation (the "Company") as of September 27, 2008 and September 29, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 27, 2008. Our audits also include the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pilgrim's Pride Corporation at September 27, 2008 and September 29, 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 27, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that Pilgrim's Pride Corporation will continue as a going concern. As more fully described in Note A, the Company filed for reorganization under Chapter 11 of the United States Bankruptcy Code on December 1, 2008. This, and the other business environment factors discussed, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note A. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As discussed in Note M to the consolidated financial statements, Pilgrim's Pride Corporation adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," effective September 30, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pilgrim's Pride Corporation's internal control over financial reporting as of September 27, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 10, 2008, expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas  
December 10, 2008

Consolidated Balance Sheets  
Pilgrim's Pride Corporation

	September 27, 2008	September 29, 2007
	(In thousands, except shares and per share data)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 61,553	\$ 66,168
Investment in available-for-sale securities	10,439	8,153
Trade accounts and other receivables, less allowance for doubtful accounts	144,156	114,678
Inventories	1,036,163	925,340
Income taxes receivable	21,656	61,901
Current deferred taxes	54,312	8,095
Prepaid expenses and other current assets	71,552	47,959
Assets held for sale	17,370	15,534
Assets of discontinued business	33,519	53,232
<b>Total current assets</b>	<b>1,450,720</b>	<b>1,301,060</b>
Investment in available-for-sale securities	55,854	46,035
Other assets	51,768	60,113
Identified intangible assets, net	67,363	78,433
Goodwill	—	505,166
Property, plant and equipment, net	1,673,004	1,783,429
	<b>\$ 3,298,709</b>	<b>\$ 3,774,236</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 378,887	\$ 398,512
Accrued expenses	448,823	497,262
Current maturities of long-term debt	1,874,469	2,872
Liabilities of discontinued business	10,783	6,556
<b>Total current liabilities</b>	<b>2,712,962</b>	<b>905,202</b>
Long-term debt, less current maturities	67,514	1,318,558
Deferred income taxes	80,755	326,570
Other long-term liabilities	85,737	51,685
Commitments and contingencies	—	—
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued	—	—
Common stock, \$.01 par value, 160,000,000 shares authorized; 74,055,733 and 66,555,733 shares issued and outstanding at year end 2008 and 2007, respectively	740	665
Additional paid-in capital	646,922	469,779
Accumulated earnings (deficit)	(317,082)	687,775
Accumulated other comprehensive income	21,161	14,002
<b>Total stockholders' equity</b>	<b>351,741</b>	<b>1,172,221</b>
	<b>\$ 3,298,709</b>	<b>\$ 3,774,236</b>

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



Consolidated Statements of Operations  
Pilgrim's Pride Corporation

	Three Years Ended September 27, 2008		
	2008	2007	2006
	(In thousands, except per share data)		
Net sales	\$ 8,525,112	\$ 7,498,612	\$ 5,152,729
Costs and expenses:			
Cost of sales	8,675,524	6,905,882	4,855,646
Operational restructuring charges	13,083	—	—
Gross profit (loss)	(163,495)	592,730	297,083
Selling, general and administrative expenses	376,599	355,539	285,978
Goodwill impairment	501,446	—	—
Administrative restructuring charges	16,156	—	—
Total costs and expenses	9,582,808	7,261,421	5,141,624
Operating income (loss)	(1,057,696)	237,191	11,105
Other expenses (income):			
Interest expense	134,220	123,183	49,013
Interest income	(2,593)	(4,641)	(10,048)
Loss on early extinguishment of debt	—	26,463	—
Miscellaneous, net	(2,230)	(6,649)	(1,234)
	129,397	138,356	37,731
Income (loss) from continuing operations before income taxes	(1,187,093)	98,835	(26,626)
Income tax expense (benefit)	(194,921)	47,319	1,573
Income (loss) from continuing operations	(992,172)	51,516	(28,199)
Income (loss) from operations of discontinued business, net of tax	(7,312)	(4,499)	(6,033)
Gain on disposal of discontinued business, net of tax	903	—	—
Net income (loss)	<u>\$ (998,581)</u>	<u>\$ 47,017</u>	<u>\$ (34,232)</u>
Net income (loss) per common share—basic and diluted:			
Continuing operations	\$ (14.31)	\$ 0.77	\$ (0.42)
Discontinued business	(0.09)	(0.06)	(0.09)
Net income (loss)	<u>\$ (14.40)</u>	<u>\$ 0.71</u>	<u>\$ (0.51)</u>

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

Consolidated Statements of Stockholders' Equity  
Pilgrim's Pride Corporation

	Common Stock		Additional	Accumulated	Accumulated	Treasury	Total
	Shares	Value	Paid-In	Earnings	Other	Stock	
			Capital	(Deficit)	Comprehensive		
	(In thousands, except shares and per share data)						
Balance at October 1, 2005	66,826,833	\$ 668	\$ 471,344	\$ 753,527	\$ (373)	\$ (1,568)	\$ 1,223,598
Net loss				(34,232)			(34,232)
Other comprehensive income					507		507
Total comprehensive loss							(33,725)
Cancellation of treasury stock	(271,100)	(3)	(1,565)			1,568	—
Cash dividends declared (\$1.09 per share)				(72,545)			(72,545)
Balance at September 30, 2006	66,555,733	665	469,779	646,750	134	—	1,117,328
Net income				47,017			47,017
Other comprehensive income					13,868		13,868
Total comprehensive income							60,885
Cash dividends declared (\$.09 per share)				(5,992)			(5,992)
Balance at September 29, 2007	66,555,733	665	469,779	687,775	14,002	—	1,172,221
Net loss				(998,581)			(998,581)
Other comprehensive income					7,159		7,159
Total comprehensive loss							(991,422)
Sale of common stock	7,500,000	75	177,143				177,218
Cash dividends declared (\$0.09 per share)				(6,328)			(6,328)
Other				52			52
Balance at September 27, 2008	<u>74,055,733</u>	<u>\$ 740</u>	<u>\$ 646,922</u>	<u>\$ (317,082)</u>	<u>\$ 21,161</u>	<u>\$ —</u>	<u>\$ 351,741</u>

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

Consolidated Statements of Cash Flows  
Pilgrim's Pride Corporation

	Three Years Ended September 27, 2008		
	2008	2007	2006
	(In thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (998,581)	\$ 47,017	\$ (34,232)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities			
Depreciation and amortization	240,305	204,903	135,133
Non-cash loss on early extinguishment of debt	—	9,543	—
Tangible asset impairment	13,184	—	3,767
Goodwill impairment	501,446	—	—
Loss (gain) on property disposals	(14,850)	(446)	1,781
Deferred income taxes	(195,944)	83,884	20,455
Changes in operating assets and liabilities, net of the effect of business acquired			
Accounts and other receivables	(19,864)	247,217	31,121
Income taxes payable/receivable	(1,552)	5,570	(55,363)
Inventories	(103,937)	(129,645)	(58,612)
Prepaid expenses and other current assets	(23,392)	(2,981)	(6,594)
Accounts payable and accrued expenses	(71,293)	(5,097)	(3,501)
Other	(6,248)	4,045	(3,626)
<b>Cash provided by (used in) operating activities</b>	<b>(680,726)</b>	<b>464,010</b>	<b>30,329</b>
<b>Cash flows from investing activities:</b>			
Acquisitions of property, plant and equipment	(152,501)	(172,323)	(143,882)
Purchase of investment securities	(38,043)	(125,045)	(318,266)
Proceeds from sale or maturity of investment securities	27,545	208,676	490,764
Business acquisition, net of cash acquired	—	(1,102,069)	—
Proceeds from property disposals	41,367	6,286	4,148
Other, net	—	—	(506)
<b>Cash provided by (used in) investing activities</b>	<b>(121,632)</b>	<b>(1,184,475)</b>	<b>32,258</b>
<b>Cash flows from financing activities:</b>			
Proceeds from notes payable to banks	—	—	270,500
Repayments on notes payable to banks	—	—	(270,500)
Proceeds from long-term debt	2,264,912	1,981,255	74,683
Payments on long-term debt	(1,646,028)	(1,368,700)	(36,950)
Changes in cash management obligations	13,558	39,231	—
Sale of common stock	177,218	—	—
Debt issue costs	(5,589)	(15,565)	(3,938)
Cash dividends paid	(6,328)	(5,992)	(72,545)
<b>Cash provided by (used in) financing activities</b>	<b>797,743</b>	<b>630,229</b>	<b>(38,750)</b>
Increase (decrease) in cash and cash equivalents	(4,615)	(90,236)	23,837
Cash and cash equivalents, beginning of year	66,168	156,404	132,567
<b>Cash and cash equivalents, end of year</b>	<b>\$ 61,553</b>	<b>\$ 66,168</b>	<b>\$ 156,404</b>
<b>Supplemental Disclosure Information:</b>			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$ 142,339	\$ 104,394	\$ 48,590
Income taxes paid	\$ 6,411	\$ 11,164	\$ 37,813

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE A—BUSINESS, CHAPTER 11 BANKRUPTCY FILINGS AND PROCESS, AND GOING CONCERN MATTERS

#### Business

Pilgrim's Pride Corporation (referred to herein as "the Company," "we," "us," "our," or similar terms) is one of the largest chicken companies in the United States ("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-foods 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.

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.

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 between the first quarter of 2007 and the end of 2008. While chicken selling prices generally improved over 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.
- 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. After entering into these positions, the prices of the commodities decreased significantly in July and August of 2008 creating these losses.

- 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.
- The Company assessed the realizability of its net deferred tax assets position and increased its valuation allowance and recognized additional income tax expense of approximately \$71.2 million during 2008.

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

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

The filing of the Chapter 11 petitions constituted an event of default under certain of our debt obligations, and those debt obligations became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result, the accompanying Consolidated Balance Sheet as of September 27, 2008 includes 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 Subsidiaries organized in the United States (the "US Subsidiaries") to enter into that certain Post-Petition Credit Agreement (the "DIP Credit Agreement") among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent (the "DIP Agent"), and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the 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 Receivables Purchase Agreement ("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 Note F—Accounts Receivable.

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 Note L—Notes Payable and Long-Term Debt.

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 historic levels of profitability and, in the near term, restructure its obligations in a manner that allows it to obtain confirmation of a plan of reorganization by the Bankruptcy Court.

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. The Company 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.

### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

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

The Company reports on the basis of a 52/53-week year that ends on the Saturday closest to September 30. As a result, 2008, 2007, and 2006 each had 52 weeks.

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

#### Accounting Adjustments and Reclassifications

In 2006, the Company recognized tax-effected costs totaling \$4.6 million related to events that occurred prior to 2006 affecting the Pilgrim's Pride Retirement Plan for Union Employees and certain postretirement obligations in Mexico. The Company believes these costs, considered individually and in the aggregate, are not material to our Consolidated Financial Statements for 2006.

We have made certain reclassifications to the 2007 and 2006 Consolidated Financial Statements with no impact to reported net income (loss) in order to conform to the 2008 presentation.

#### 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.

#### Shipping and Handling Costs

Costs associated with the products shipped to customers are recognized in cost of sales.

#### Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### Current and Long-Term Investments

The Company's current and long-term investments consist primarily of investment-grade debt and equity securities, bond and equity mutual funds, and insurance contracts. The investment-grade debt and equity securities as well as the bond and equity mutual funds are classified as available-for-sale. These securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income. Debt securities with remaining maturities of less than one year and those identified by management at the time of purchase for funding operations in less than one year are classified as current. Debt securities with remaining maturities greater than one year that management has not identified at the time of purchase for funding operations in less than one year are classified as long-term. All equity securities are classified as long-term. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term, and the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The Company determines the cost of each security sold and each amount reclassified out of accumulated other comprehensive income into earnings using the specific identification method. Purchases and sales are recorded on a trade date basis. The insurance contracts are held in the Company's deferred compensation trusts. They are recorded at fair value with the gains and losses resulting from changes in fair value immediately recognized in earnings.

Investments in joint ventures and entities in which the Company has an ownership interest greater than 50% and exercises control over the venture are consolidated in the Consolidated Financial Statements. Minority interests in the years presented, amounts of which are not material, are included in the line item Other Long-Term Liabilities in the Consolidated Balance Sheets. Investments in joint ventures and entities in which the Company has an ownership interest between 20% and 50% and exercises significant influence are accounted for using the equity method. The Company owns a 49% interest in Merit Provisions LLC ("Merit") that it consolidates because the Company provided financial support to the entity that owns a 51% interest in Merit. The operations of Merit are not significant to the Company as a whole at this time. The Company invests from time to time in ventures in which its ownership interest is less than 20% and over which it does not exercise significant influence. Such investments are accounted for under the cost method. The fair values for investments not traded on a quoted exchange are estimated based upon the historical performance of the ventures, the ventures' forecasted financial performance and management's evaluation of the ventures' viability and business models. To the extent the book value of an investment exceeds its assessed fair value, the Company will record an appropriate impairment charge. Thus, the carrying value of the Company's investments approximates fair value.

#### Accounts Receivable

The Company records accounts receivable upon shipment and transfer of ownership of its products to customers. We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in determining the allowance for doubtful accounts are based on historical collection experience, current trends, aging of accounts receivable, and periodic credit evaluations of our customers' financial condition. We write off accounts receivable when it becomes apparent, based upon age or customer circumstances, that such amounts will not be collected. Generally, the Company does not require collateral for its accounts receivable.

#### Inventories

Live poultry 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 the 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 the inventory's obsolescence, including significantly aged products, discontinued product lines, or damaged or obsolete products. We allocate meat costs between our various finished poultry 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, primarily including 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 age, condition and 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.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost, and repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of these assets. Estimated useful lives for building, machinery and equipment are 5 years to 33 years and for automobiles and trucks are 3 years to 10 years. The charge to income resulting from amortization of assets recorded under capital leases is included with depreciation expense.

The Company recognizes 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 estimates expected 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.

#### Goodwill and Other Intangible Assets

Our intangible assets consist of goodwill and assets subject to amortization such as trade names, customer relationships and non-compete agreements. We calculate amortization of those assets that are subject to amortization on a straight-line basis over the estimated useful lives of the related assets. The useful lives range from three years for trade names and non-compete agreements to thirteen years for customer relationships.

We evaluate goodwill for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. We compare the fair value of each reporting unit to its carrying value. We determine the fair value using a weighted average of results derived from both the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we calculate the fair value of a reporting unit based on the market values of key competitors. If the fair value of the reporting unit exceeds the carrying value of the net assets including goodwill assigned to that unit, goodwill is not impaired. If the carrying value of the reporting unit's net assets including goodwill exceeds the fair value of the reporting unit, then we determine 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 we recognize an impairment loss for the difference between the carrying amount and the implied fair value of goodwill as a component of operating income.

We review intangible assets subject to amortization for impairment whenever an event or change in circumstances indicates the carrying values of the assets may not be recoverable. We test intangible assets subject to amortization for impairment and estimate their fair values using the same assumptions and techniques we employ on property, plant and equipment.

#### Litigation and Contingent Liabilities

The Company is subject to lawsuits, investigations and other claims related to employment, environmental, product, and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes, as well as potential ranges of probable losses, to these matters. The Company estimates the amount of reserves required, including anticipated cost of defense, if any, for these contingencies when losses are determined to be probable 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 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 and current 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 assumption used to arrive at periodic expenses is reviewed regularly by management. However, actual expenses could differ from these estimates and could result in adjustments to be recognized.

#### 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.

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.

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.

On September 30, 2007, and effective for our year ended 2008, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (“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 is greater than 50% likely 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

Our 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. We base 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. We determine the long-term return on plan assets 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 projected benefit obligation or the fair market value of plan assets, amortized over the estimated future working life of the plan participants.

#### Business Combinations

The Company allocates the total purchase price in connection with acquisitions to assets and liabilities based upon their estimated fair values. For significant acquisitions, the Company has historically relied upon the use of third-party valuation experts to assist in the estimation of the fair values of property, plant and equipment and intangible assets other than goodwill. 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 pension and self-insurance accruals.

### Operating Leases

Rent expense for operating leases is recorded on a straight-line basis over the lease term unless the lease contains an escalation clause which is not fixed and determinable. The lease term begins when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. If a lease has a fixed and determinable escalation clause, the difference between rent expense and rent paid is recorded as deferred rent and is included in the Consolidated Balance Sheets. Rent for operating leases that do not have an escalation clause or where escalation is based on an inflation index is expensed over the lease term as it is payable.

### Derivative Financial Instruments

The Company attempts to mitigate certain financial exposures, including commodity purchase exposures and interest rate risk, through a program of risk management that includes the use of derivative financial instruments. We recognize all derivative financial instruments in the Consolidated Balance Sheets at fair value.

We have elected not to designate derivative financial instruments executed to mitigate commodity purchase exposures as hedges of forecasted transactions or of the variability of cash flows to be received or paid related to recognized assets or liabilities ("cash flow hedges"). Therefore, we recognize changes in the fair value of these derivative financial instruments immediately in earnings. Gains or losses related to these derivative financial instruments are included in the line item Cost of sales in the Consolidated Statements of Operations. We generally do not attempt to mitigate price change exposure on anticipated commodities transactions beyond 18 months.

We occasionally execute derivative financial instruments to manage exposure to interest rate risk. In particular, we executed a Treasury lock instrument in 2007 to "lock in", or secure, the Treasury rate that served as the basis for the pricing of a prospective public debt issue. A "treasury lock" is a synthetic forward sale of a US Treasury note or bond that is settled in cash based upon the difference between an agreed upon Treasury rate and the prevailing Treasury rate at settlement. We designated the lock instrument as a cash flow hedge and recognized changes in the fair value of the instrument in accumulated other comprehensive income until the prospective public debt issue occurred. Once the public debt was issued, we began recognizing the change in the fair value of the lock instrument as an adjustment to interest expense over the term of the related debt.



#### Fair Value of Financial Instruments

The asset (liability) amounts recorded in the Consolidated Balance Sheet (carrying amounts) and the estimated fair values of financial instruments at September 27, 2008 consisted of the following:

	Carrying Amount	Fair Value	Reference
	(In thousands)		
Cash and cash equivalents	\$ 61,553	\$ 61,553	
Investments in available-for-sale securities	66,293	66,293	Note H
Accounts receivable	144,156	144,156	Note F
Derivative financial instruments	(17,968)	(17,968)	Note Q
Accounts payable and accrued expenses	(827,710)	(827,710)	Note K
Public debt obligations	(656,996)	(371,206)	Note L
Non-public credit facilities	(1,284,987)	(a)	Note L

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

The carrying amounts of our cash and cash equivalents, accounts receivable, accounts payable and certain other liabilities approximate their fair values due to their relatively short maturities. The Company adjusts its investments to fair value based on quoted market prices. Derivative financial instruments are adjusted to fair value at least once each quarter using inputs that are readily available in public markets or can be derived from information available in public markets.

#### Concentrations of Various Risks

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents, investment securities, derivative financial instruments and trade accounts receivable. The Company's cash equivalents and investment securities are high-quality debt and equity securities placed with major banks and financial institutions. Our derivative financial instruments are generally exchange-traded futures or options contracts placed with major financial institutions. The Company's trade accounts receivable are generally unsecured. Credit evaluations are performed on all significant customers and updated as circumstances dictate. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across geographic areas. With the exception of one customer that accounts for approximately 13% of trade accounts receivable at September 27, 2008 and approximately 11% of net sales for 2008 primarily related to our chicken segment, the Company does not believe it has significant concentrations of credit risk in its trade accounts receivable.

At September 27, 2008, approximately 33% of the Company's employees were covered under collective bargaining agreements and approximately 26% of the employees covered under collective bargaining agreements are covered under agreements that will expire in 2009. We have not experienced any work stoppage at any location in over five years. We believe our relations with our employees are satisfactory. At any given time, we will be in some stage of contract negotiation with various collective bargaining units.

#### Net Income (Loss) per Common Share

Net income (loss) per common share is based on the weighted average number of shares of common stock outstanding during the year. The weighted average number of shares outstanding (basic and diluted) included herein were 69,337,326 shares in 2008 and 66,555,733 shares in both 2007 and 2006.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We make significant estimates in regard to receivables collectibility; inventory valuation; realization of deferred tax assets; valuation of long-lived assets, including goodwill; valuation of contingent liabilities and self insurance liabilities; valuation of pension and other postretirement benefits obligations; and valuation of acquired businesses.

#### Pending Adoption of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, for some enterprises, the application of this Statement will change current practice. The Company must adopt SFAS No. 157 in the first quarter of fiscal 2009. The adoption of SFAS No. 157 will not require material modification of our fair value measurements and will be substantially limited to expanded disclosures in the notes to our Consolidated Financial Statements.

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

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company must apply the requirements of SFAS No. 161 in the first quarter of 2010. The Company does not expect the adoption of SFAS No. 161 will have a material impact on its financial position, financial performance or cash flows.

#### NOTE C—BUSINESS ACQUISITION

On December 27, 2006, we acquired 45,343,812 shares, representing 88.9% of shares outstanding, of Gold Kist Inc. ("Gold Kist") common stock through a tender offer. We subsequently acquired all remaining Gold Kist shares and, on January 9, 2007, Gold Kist became a wholly owned subsidiary of the Company. Gold Kist, based in Atlanta, Georgia, was the third largest chicken company in the United States, accounting for more than nine percent of chicken produced in the United States in recent years. Gold Kist operated a fully-integrated chicken production business that included live production, processing, marketing and distribution.

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. We have included the acquired assets and assumed liabilities in our balance sheet using an allocation of the purchase price based on an appraisal received from a third-party valuation specialist.

The following summarizes the purchase price for Gold Kist at December 27, 2006 (in thousands):

Purchase of 50,146,368 shares at \$21.00 per share	\$ 1,053,074
Premium paid on retirement of debt	22,208
Retirement of share-based compensation awards	25,677
Transaction costs and fees	37,740
	<hr/>
Total purchase price	\$ 1,138,699

We retired the Gold Kist 10 1/4% Senior Notes due 2014 with a book value of \$128.5 million at a cost of \$149.8 million plus accrued interest and the Gold Kist Subordinated Capital Certificates of Interest at par plus accrued interest and a premium of one year's interest. We also paid acquisition transaction costs and funded change in control payments to certain Gold Kist employees. This acquisition was initially funded by (i) \$780.0 million borrowed under our revolving-term secured credit facility and (ii) \$450.0 million borrowed under our \$450.0 million Senior Unsecured Term Loan Agreement ("Bridge Loan"). For additional information, see Note L—Notes Payable and Long-Term Debt.

In connection with the acquisition, we elected to freeze certain of the Gold Kist benefit plans with the intent to ultimately terminate them. We recorded a purchase price adjustment of \$65.6 million to increase the benefit plans liability to the \$82.5 million current estimated cost of these plan terminations. We do not anticipate any material net periodic benefit costs (income) related to these plans in the future. Additionally, we conformed Gold Kist's accounting policies to our accounting policies and provided for deferred income taxes on all related purchase adjustments.

The following summarizes our estimates of the fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	\$ 418,583
Property, plant and equipment	674,444
Goodwill	499,669
Intangible assets	64,500
Other assets	<u>65,597</u>
<b>Total assets acquired</b>	<b><u>1,722,793</u></b>
Current liabilities	269,619
Long-term debt, less current maturities	140,674
Deferred income taxes	93,509
Other long-term liabilities	<u>80,292</u>
<b>Total liabilities assumed</b>	<b><u>584,094</u></b>
<b>Total purchase price</b>	<b><u>\$ 1,138,699</u></b>

Goodwill and other intangible assets reflected above were determined to meet the criteria for recognition apart from tangible assets acquired and liabilities assumed. Intangible assets related to the acquisition consisted of the following at December 27, 2006:

	Estimated Fair Value (In millions)	Amortization Period (In years)
Intangible assets subject to amortization:		
Customer relationships	\$ 51,000	13.0
Trade name	13,200	3.0
Non-compete agreements	<u>300</u>	3.0
<b>Total intangible assets subject to amortization</b>	<b>64,500</b>	
Goodwill	<u>499,669</u>	
<b>Total intangible assets</b>	<b><u>\$ 564,169</u></b>	
<b>Weighted average amortization period</b>		<b>10.9</b>

Goodwill, which is recognized in the Company's chicken segment, represents the purchase price in excess of the value assigned to identifiable tangible and intangible assets. We elected to acquire Gold Kist at a price that resulted in the recognition of goodwill because we believed the following strategic and financial benefits were present:

- The combined company would be positioned as the world's leading chicken producer and that position would provide us with enhanced abilities to:
  - Compete more efficiently and provide even better customer service;
  - Expand our geographic reach and customer base;
  - Further pursue value-added and prepared chicken opportunities; and
  - Offer long-term growth opportunities for our stockholders, employees, and growers.
- The combined company would be better positioned to compete in the industry both internationally and in the US as additional consolidation occurred.

As discussed in Note I—Goodwill, because of the deterioration in the chicken industry subsequent to the acquisition, the Company determined that this goodwill was fully impaired at September 27, 2008.

The amortizable intangible assets were determined by us to have finite lives. The useful life for the customer relationships intangible asset we recognized was based on our forecasts of customer turnover. The useful life for the trade name intangible asset we recognized was based on the estimated length of our use of the Gold Kist trade name while it is phased out and replaced with the Pilgrim's Pride trade name. The useful life of the non-compete agreements intangible asset we recognized was based on the remaining life of the agreements. We amortize these intangible assets over their remaining useful lives on a straight-line basis. Annual amortization expense for these intangible assets was \$8.4 million in 2008 and \$6.3 million in 2007. We expect to recognize annual amortization expense of \$8.4 million in 2009, \$5.1 million in 2010, \$3.9 million in each year from 2011 through 2019, and \$1.0 million in 2020.

The following unaudited pro forma financial information has been presented as if the acquisition had occurred at the beginning of each period presented.

	2007 Pro forma	2006 Pro forma
	(In thousands, except shares and per share data)	
Net sales	\$ 8,026,422	\$ 7,269,182
Depreciation and amortization	\$ 228,539	\$ 221,512
Operating income (loss)	\$ 206,640	\$ (45,482)
Interest expense, net	\$ 144,354	\$ 123,726
Income (loss) from continuing operations before taxes	\$ 43,900	\$ (163,049)
Income (loss) from continuing operations	\$ 17,331	\$ (112,538)
Net income (loss)	\$ 12,832	\$ (118,571)
Income (loss) from continuing operations per common share	\$ 0.26	\$ (1.69)
Net income (loss) per common share	\$ 0.19	\$ (1.78)
Weighted average shares outstanding	66,555,733	66,555,733

#### NOTE D—DISCONTINUED BUSINESS

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

For a period of time, we will continue to incur cash flow activities that are associated with our former turkey business. These activities are transitional in nature. We have entered into a short-term co-pack agreement with the acquirer of the former turkey business under which they will process turkeys for sale to our customers through the end of 2008. For the period of time until we have collected funds on the sale of these turkeys, we will continue to incur cash flow activity and to report operating activity, although at a substantially reduced level. Upon completion of these activities, the cash flows and the operating activity will be eliminated.

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

No debt was assumed by the acquirer of the discontinued turkey business or required to be repaid as a result of the disposal transaction. We elected to allocate to the discontinued turkey operation other consolidated interest that was not directly attributable to or related to other operations of the Company based on the ratio of net assets to be sold or discontinued to the sum of the total net assets of the Company plus consolidated debt. Interest allocated to the discontinued business totaled \$1.4 million, \$2.6 million, and \$1.6 million in 2008, 2007 and 2006, respectively.

The following amounts related to our turkey business have been segregated from continuing operations and included in the line items Income (loss) from operation of discontinued business, net of tax and Gain on sale of discontinued business, net of tax in the Consolidated Statements of Operations:

	2008	2007	2006
		(In thousands)	
Net sales	\$ 86,261	\$ 99,987	\$ 82,836
Loss from operation of discontinued business before income taxes	\$ (11,746)	\$ (7,228)	\$ (9,691)
Income tax benefit	(4,434)	(2,729)	(3,658)
Loss from operation of discontinued business, net of tax	<u>\$ (7,312)</u>	<u>\$ (4,499)</u>	<u>\$ (6,033)</u>
Gain on sale of discontinued business before income taxes	\$ 1,450	\$ —	\$ —
Income tax expense	547	—	—
Gain on sale of discontinued business, net of tax	<u>\$ 903</u>	<u>\$ —</u>	<u>\$ —</u>

Property, plant and equipment related to our turkey business in the amount of \$15.5 million was segregated and included in the line item Assets held for sale in the Consolidated Balance Sheet as of September 29, 2007. The following assets and liabilities related to our turkey business have been segregated and included in the line items Assets of discontinued business and Liabilities of discontinued business, as appropriate, in the Consolidated Balance Sheets as of September 27, 2008 and September 29, 2007.

	September 27, 2008	September 29, 2007
		(In thousands)
Trade accounts and other receivables, less allowance for doubtful accounts	\$ 5,881	\$ 16,687
Inventories	27,638	36,545
Assets of discontinued business	<u>\$ 33,519</u>	<u>\$ 53,232</u>
Accounts payable	\$ 7,737	\$ 3,804
Accrued expenses	3,046	2,752
Liabilities of discontinued business	<u>\$ 10,783</u>	<u>\$ 6,556</u>

#### NOTE E—RESTRUCTURING ACTIVITIES

During 2008, the Company completed the following restructuring activities:

- Closed two processing complexes in Arkansas and North Carolina,
- Idled a processing complex in Louisiana,
- Transferred certain operations previously performed at a processing complex in Arkansas to other complexes,
- Closed seven distribution centers in Florida (2), Iowa, Mississippi, Ohio, Tennessee and Texas, and
- Closed an administrative office building in Georgia.

The Company's Board of Directors approved the actions as part of a plan intended to curtail losses amid record-high costs for corn, soybean meal and other feed ingredients and an oversupply of chicken in the United States. The actions began in March 2008 and were completed in September 2008. The affected processing complexes and distribution centers employed approximately 2,300 individuals. Virtually all of these individuals were impacted by the restructuring activities.

The Company recognized impairment charges during 2008 to reduce the carrying amounts of the following assets located at or related to the facilities discussed above to their estimated fair values:

	<u>Impairment Charge</u>
	(In thousands)
Property, plant and equipment	\$ 10,210
Inventories	2,021
Intangible assets	<u>852</u>
Total	<u>\$ 13,083</u>

Consistent with our previous practice and because management believes the realization of the carrying amount of the affected assets is directly related to the Company's production activities, the charges were reported as a component of gross profit (loss).

Results of operations for 2008 included restructuring charges totaling \$16.2 million related to these actions. All of the restructuring charges, with the exception of certain lease commitment costs, have resulted in cash expenditures or will result in cash expenditures within one year.



The following table sets forth restructuring activity that occurred during 2008:

	September 29, 2007	2008		September 27, 2008
		Accruals	Payments	
	(In thousands)			
Lease continuation	\$ —	\$ 4,778	\$ 312	\$ 4,466
Severance and employee retention	—	4,000	1,306	2,694
Grower compensation	—	3,989	—	3,989
Other restructuring costs	—	3,389	1,727	1,662
<b>Total</b>	<b>\$ —</b>	<b>\$ 16,156</b>	<b>\$ 3,345</b>	<b>\$ 12,811</b>

Consistent with the Company's previous practice and because management believes these costs are related to ceasing production at these facilities and not directly related to the Company's ongoing production, they are classified as a component of operating income (expense).

We continue to review our business strategies and evaluate further restructuring activities. This could result in additional restructuring charges in future periods.

#### NOTE F—RECEIVABLES

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

	September 27, 2008	September 29, 2007
	(In thousands)	
Trade accounts receivable	\$ 135,003	\$ 89,555
Other receivables	13,854	30,140
	148,857	119,695
Allowance for doubtful accounts	(4,701)	(5,017)
<b>Receivables, net</b>	<b>\$ 144,156</b>	<b>\$ 114,678</b>

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 this 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.

NOTE G—INVENTORIES

Inventories consist of the following:

	September 27, 2008	September 29, 2007
	(In thousands)	
<b>Chicken:</b>		
Live chicken and hens	\$ 385,511	\$ 343,185
Feed and eggs	265,959	223,631
Finished chicken products	<u>365,123</u>	<u>337,052</u>
Total chicken inventories	<u>1,016,593</u>	<u>903,868</u>
<b>Other products:</b>		
Commercial feed, table eggs, retail farm store and other	\$ 13,358	\$ 11,327
Distribution inventories (other than chicken products)	<u>6,212</u>	<u>10,145</u>
Total other products inventories	<u>19,570</u>	<u>21,472</u>
<b>Total inventories</b>	<b><u>\$ 1,036,163</u></b>	<b><u>\$ 925,340</u></b>

Inventories included a lower-of-cost-or-market allowance of \$26.6 million at September 27, 2008. Inventories did not include a lower-of-cost-or-market allowance at September 29, 2007.

NOTE H—INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

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

	September 27, 2008	September 29, 2007
	(In thousands)	
<b>Current investments:</b>		
Fixed income securities	\$ 9,835	\$ 7,549
Other	<u>604</u>	<u>604</u>
Total current investments	<u>\$ 10,439</u>	<u>\$ 8,153</u>
<b>Long-term investments:</b>		
Fixed income securities	\$ 44,127	\$ 35,451
Equity securities	9,775	9,591
Other	<u>1,952</u>	<u>993</u>
	<u>\$ 55,854</u>	<u>\$ 46,035</u>

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.

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

Maturities for the Company's investments in fixed income securities as of September 27, 2008 were as follows:

	Amount	Percent
	(In thousands)	
Matures in less than one year	\$ 9,835	18.2%
Matures between one and two years	7,952	14.8%
Matures between two and five years	28,690	53.1%
Matures in excess of five years	7,485	13.9%
	<u>\$ 53,962</u>	<u>100.0%</u>

The Company has recorded unrealized pretax losses totaling \$1.4 million, related to its investments at September 27, 2008 as accumulated other comprehensive income, a separate component of stockholders' equity.

#### NOTE I—GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

The Company generally plans to perform its annual impairment test of goodwill at the beginning of its fourth quarter. However, the Company evaluated goodwill as of September 27, 2008 because of the significant deterioration in the operating environment during the fourth quarter of 2008. The Company's impairment test resulted in a non-cash, pretax impairment charge of \$501.4 million (\$7.40 per share) related to a write-down of the goodwill reported in the Chicken segment. The goodwill was primarily related to the 2007 acquisition of Gold Kist. The charge is not tax deductible because the acquisition of Gold Kist was structured as a tax-free stock transaction. The impairment charge is included in the line item Goodwill impairment in the Consolidated Statement of Operations for the year ended September 27, 2008.

The impairment of goodwill mainly resulted from declines in current and projected operating results and cash flows of the Company because of, among other factors, record-high costs for corn, soybean meal and other feed ingredients and an oversupply of chicken and other animal-based proteins in the United States. These factors resulted in the carrying value of the goodwill being greater than its implied fair value; therefore, a write-down to the implied fair value was required.

The implied fair value of goodwill is the residual fair value after allocating the total fair value of the Company to its other assets, net of liabilities. The total fair value of the Company was estimated using a combination of a discounted cash flow model (present value of future cash flows) and a market approach model (a multiple of various metrics based on comparable businesses and market transactions).

Identified intangible assets consisted of the following:

	Useful Life (Years)	Original Cost	Accumulated Amortization (In thousands)	Carrying Amount
<b>September 27, 2008:</b>				
Trade names	3-15	\$ 39,271	\$ (16,168)	\$ 23,103
Customer relationships	13	51,000	(6,865)	44,135
Non-compete agreement and other identified intangibles	3-15	300	(175)	125
<b>Total intangible assets</b>		<b>\$ 90,571</b>	<b>\$ (23,208)</b>	<b>\$ 67,363</b>
<b>September 29, 2007:</b>				
Trade names		\$ 39,271	\$ (10,007)	\$ 29,264
Customer relationships		51,000	(2,943)	48,057
Non-compete agreement and other identified intangibles		1,343	(231)	1,112
<b>Total identified intangible assets</b>		<b>\$ 91,614</b>	<b>\$ (13,181)</b>	<b>\$ 78,433</b>

We recognized amortization expense of \$10.2 million, \$8.1 million and \$1.8 million in 2008, 2007 and 2006, respectively.

We expect to recognize amortization expense associated with identified intangible assets of \$10.2 million in 2009, \$6.8 million in 2010 and \$5.7 million in each year from 2011 through 2013.

#### NOTE J—PROPERTY, PLANT AND EQUIPMENT

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

	September 27, 2008	September 29, 2007
	(In thousands)	
Land	\$ 111,567	\$ 114,365
Buildings, machinery and equipment	2,465,608	2,366,418
Autos and trucks	64,272	59,489
Construction-in-progress	74,307	123,001
<b>Property, plant and equipment, gross</b>	<b>2,715,754</b>	<b>2,663,273</b>
<b>Accumulated depreciation</b>	<b>(1,042,750)</b>	<b>(879,844)</b>
<b>Property, plant and equipment, net</b>	<b>\$ 1,673,004</b>	<b>\$ 1,783,429</b>

#### Impairment

The Company recognized non-cash asset impairment charges totaling \$10.2 million during 2008 to reduce the carrying amounts of certain property, plant and equipment located at the facilities discussed in Note E—Restructuring Activities to their estimated fair values.

## Depreciation

We recognized depreciation expense related to our continuing operations of \$224.4 million, \$188.6 million and \$129.3 million in 2008, 2007 and 2006, respectively. We also recognized depreciation charges related to our discontinued turkey business of \$0.7 million, \$1.6 million and \$1.4 million in 2008, 2007 and 2006, respectively.

## Assets Held for Sale

During 2008, the Company classified certain assets in the amount of \$19.8 million related to its closed production complexes in North Carolina and Arkansas and its closed distribution centers in Florida and Texas as assets held for sale. The Company sold certain assets related to one of its closed distribution centers in Florida for \$4.4 million in the third quarter of 2008 and recognized a gain of \$2.0 million. At September 27, 2008, the Company reported \$17.4 million of assets held for sale on its Consolidated Balance Sheet.

## NOTE K—ACCRUED EXPENSES

Accrued expenses consisted of the following:

	September 27, 2008	September 29, 2007
	(In thousands)	
Compensation and benefits	\$ 118,803	\$ 159,322
Interest and debt maintenance	35,488	49,100
Self insurance	170,787	158,851
Other	123,745	129,989
Total	<u>\$ 448,823</u>	<u>\$ 497,262</u>

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

As previously discussed under Note A—Business, Chapter 11 Bankruptcy Filing and Process and Going Concern Matters, the Company filed for bankruptcy protection on December 1, 2008. The following discussion has two distinct sections, the first relating to our notes payable and long-term debt at September 27, 2008 and the second discussing our notes payable and long-term debt after filing for Chapter 11 bankruptcy protection on December 1, 2008.

Notes Payable and Long-Term Debt at September 27, 2008

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

	Final Maturity	September 27, 2008	September 29, 2007
		(In thousands)	
Senior unsecured notes, at 7 5/8%	2015	\$ 400,000	\$ 400,000
Senior subordinated unsecured notes, at 8 3/8%	2017	250,000	250,000
Secured revolving credit facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%	2013	181,900	—
Secured revolving credit facility with notes payable at LIBOR plus 1.65% to LIBOR plus 3.125%	2011	51,613	26,293
Secured revolving/term credit facility with four notes payable at LIBOR plus a spread, one note payable at 7.34% and one note payable at 7.56%	2016	1,035,250	622,350
Other	Various	23,220	22,787
Notes payable and long-term debt		1,941,983	1,321,430
Current maturities of long-term debt		(1,874,469)	(2,872)
Notes payable and long-term debt, less current maturities		<u>\$ 67,514</u>	<u>\$ 1,318,558</u>

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 plus 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 the 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 provided 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 TIE 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 TIE 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 TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate 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.



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.

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.

Most of our domestic inventories and domestic fixed assets are pledged as collateral on our long-term debt and credit facilities.

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.

Assuming no amounts are accelerated, annual maturities of long-term debt for the five years subsequent to September 27, 2008 are: 2009—\$2.4 million; 2010—\$2.4 million; 2011—\$54.3 million; 2012—\$2.5 million; 2013—\$200.9 million and thereafter—\$1,679.4 million.

Total interest expense was \$134.2 million, \$123.2 million and \$49.0 million in 2008, 2007 and 2006, respectively. Interest related to new construction capitalized in 2008, 2007 and 2006 was \$5.3 million, \$5.7 million and \$4.3 million, respectively.

The fair value of our public debt obligations at September 27, 2008 based upon quoted market prices for the issues, was approximately \$371.2 million. 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.

#### Notes Payable and Long-Term Debt after Chapter 11 Bankruptcy Filings

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 among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent, and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the 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 Note F—Accounts Receivable.

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 \$201.2 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.

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#### NOTE M—INCOME TAXES

Income (loss) from continuing operations before income taxes by jurisdiction is as follows:

	2008	2007	2006
	(In thousands)		
US	\$ (1,165,208)	\$ 87,235	\$ (10,026)
Foreign	(21,885)	11,600	(16,600)
Total	<u>\$ (1,187,093)</u>	<u>\$ 98,835</u>	<u>\$ (26,626)</u>

The components of income tax expense (benefit) are set forth below:

	2008	2007	2006
	(In thousands)		
Current:			
Federal	\$ 925	\$ (35,434)	\$ (20,294)
Foreign	(1,649)	1,573	5,130
State and other	1,747	(2,704)	(3,718)
Total current	1,023	(36,565)	(18,882)
Deferred:			
Federal	(212,151)	73,285	9,511
Foreign	35,277	(1,637)	10,221
State and other	(19,070)	12,236	723
Total deferred	(195,944)	83,884	20,455
	<u>\$ (194,921)</u>	<u>\$ 47,319</u>	<u>\$ 1,573</u>

The effective tax rate for continuing operations for 2008 was (16.4%) compared to 47.9% for 2007. The effective tax rate for 2008 differed from 2007 primarily as a result of 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.

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The following table reconciles the statutory US federal income tax rate to the Company's effective income tax rate:

	2008	2007	2006
Federal income tax rate	(35.0) %	35.0%	(35.0) %
State tax rate, net	(2.2)	2.6	—
Permanent items	0.8	2.7	—
Difference in US statutory tax rate and foreign country effective tax rate	0.2	(0.7)	(1.4)
Goodwill impairment	14.8	—	—
Tax credits	(0.5)	(7.4)	(17.9)
Tax effect of American Jobs Creation Act repatriation	—	—	93.1
Currency related differences	—	3.5	11.5
Change in contingency / FIN 48 reserves	0.2	6.3	(40.5)
Change in valuation allowance	6.0	—	—
Change in tax rate	—	3.0	—
Other	(0.7)	2.9	(4.0)
<b>Total</b>	<b>(16.4) %</b>	<b>47.9%</b>	<b>5.8%</b>

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	2008	2007
	(In thousands)	
<b>Deferred tax liabilities:</b>		
Property and equipment	\$ 207,706	\$ 256,341
Inventories	84,261	109,410
Prior use of cash accounting	15,243	16,936
Acquisition-related items	13,832	14,820
Deferred foreign taxes	30,361	25,002
Identified intangibles	23,346	29,266
Other	6,722	51,654
<b>Total deferred tax liabilities</b>	<b>381,471</b>	<b>503,429</b>
<b>Deferred tax assets:</b>		
Net operating losses	212,421	—
Foreign net operating losses	50,824	41,257
Credit carry forwards	20,322	—
Expenses deductible in different years	142,619	143,697
<b>Subtotal</b>	<b>426,186</b>	<b>184,954</b>
Valuation allowance	(71,158)	—
<b>Total deferred tax assets</b>	<b>355,028</b>	<b>184,954</b>
<b>Net deferred tax liabilities</b>	<b>\$ 26,443</b>	<b>\$ 318,475</b>

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will be recovered, the valuation allowance will be reduced.

At September 27, 2008, domestically we have recorded gross deferred tax assets of approximately \$1,717.2 million with a valuation allowance of \$24.6 million, offset by gross deferred tax liabilities of \$1,693.0 million. In Mexico, we have recorded gross deferred tax assets of approximately \$87.0 million with a valuation allowance of approximately \$46.6 million, offset by deferred tax liabilities of \$66.9 million.

Due to a recent history of losses, the Company does not believe it has sufficient positive evidence to conclude that realization of its net deferred tax asset position at September 27, 2008 in the US and Mexico is more likely than not.

As of September 27, 2008, the Company had US federal net operating loss carry forwards in the amount of \$608.0 million that will begin to expire in 2027 and state net operating loss carry forwards in the amount of \$523.7 million that will begin to expire in 2009. The Company also had Mexico net operating loss carry forwards at September 27, 2008 approximating \$191.3 million that will begin to expire in 2011.

The Company has not provided any deferred income taxes on the undistributed earnings of its Mexico subsidiaries based upon the determination that such earnings will be indefinitely reinvested. As of September 27, 2008, the cumulative undistributed earnings of these subsidiaries were approximately \$38.0 million. If such earnings were not considered indefinitely reinvested, certain deferred foreign and US income taxes would have been provided, after consideration of estimated foreign tax credits.

In October 2007, Mexico's legislative bodies enacted La Ley del Impuesto Empresarial a Tasa Unica ("IETU"), a new minimum corporate tax that was assessed on companies doing business in Mexico beginning January 1, 2008. While the Company has determined that it does not anticipate paying any significant taxes under IETU, the new law did affect the Company's tax planning strategies to fully realize its deferred tax assets under Mexico's regular income tax. The Company has evaluated the impact of IETU on its Mexico operations, and because of the treatment of net operating losses under the new law, established a valuation allowance for net operating losses it believes do not meet the more likely than not realization criteria of SFAS No. 109, Accounting for Income Taxes. This valuation allowance resulted in a \$24.5 million charge to tax expense for 2008.

During the fourth quarter of 2006, the Company repatriated \$155.0 million in previously unremitted, untaxed earnings under the provisions of the American Jobs Creation Act ("AJCA"). The AJCA, which was enacted in October 2004, included a temporary incentive to US multinationals to repatriate foreign earnings at an approximate effective 5.25% US federal tax rate. The total income tax effect of repatriations under the AJCA was \$28.2 million.

The Company adopted the provisions of FIN 48 on September 30, 2007, effective for its year ended September 27, 2008. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax benefit is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company increased deferred tax assets by \$22.9 million and goodwill by \$0.5 million. Unrecognized tax benefits at September 27, 2008 relate to various US jurisdictions.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2008
	(In thousands)
Unrecognized tax benefits, beginning of year	\$ 58,557
Increases in tax positions for the current year	3,716
Increases in tax positions for prior years	4,120
Decreases in tax positions for prior years	(1,071)
Unrecognized tax benefits, end of year	<u>\$ 65,322</u>

Included in unrecognized tax benefits of \$65.3 million at September 27, 2008 was \$36.6 million of tax benefits that, if recognized, would reduce the Company's effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. As of September 27, 2008, the Company had recorded a liability of \$15.0 million for interest and penalties. This amount includes an increase of \$3.3 million recognized for 2008.

The Company operates in the United States (including multiple state jurisdictions), Puerto Rico and Mexico. With few exceptions, the Company is no longer subject to US federal, state or local income tax examinations for years prior to 2003 and is no longer subject to Mexico income tax examinations by taxing authorities for years prior to 2005. We are currently under audit by the Internal Revenue Service for the tax years ended September 26, 2003 to September 30, 2006. It is likely that the examination phase of the audit will conclude in late 2009. As a result, no adjustments to our FIN 48 liability is expected within the next 12 months.

NOTE N—COMPREHENSIVE INCOME (LOSS)

For the year ending September 27, 2008, comprehensive loss, net of taxes, was \$991.4 million, consisting of net loss of \$998.6 million, unrealized loss related to our investments in debt securities of \$2.2 million, gains related to pension and other postretirement benefits plans of \$9.8 million and loss on cash flow hedges of \$0.4 million. This compares to the year ended September 29, 2007 in which comprehensive income, net of taxes, was \$60.9 million, consisting of net income of \$47.0 million, unrealized gains related to our investments in debt securities of \$0.8 million, gains related to pension and other postretirement benefits plans of \$7.9 million and realized gains on cash flow hedges of \$3.4 million. Comprehensive loss for the year ended September 30, 2006 was \$33.7 million, consisting of net loss of \$34.2 million and unrealized gains related to our investments in debt securities of \$0.5 million.

Accumulated other comprehensive income at September 27, 2008 was \$21.2 million, net of taxes of \$13.4 million, and consisted of pretax adjustments for gains related to pension and other postretirement benefits plans totaling \$31.2 million, accumulated unrealized gains on cash flow hedges totaling \$4.8 million and accumulated unrealized loss on our investments in debt securities totaling \$1.4 million. Accumulated other comprehensive income at September 29, 2007 was \$14.0 million, net of taxes of \$6.6 million, and consisted of pretax adjustments for gains related to pension and postretirement benefits plans totaling \$14.3 million, accumulated unrealized gains on cash flow hedges totaling \$5.3 million and accumulated unrealized gain on our investments in debt securities totaling \$0.9 million.



#### NOTE O—COMMON STOCK

Prior to November 21, 2003, the Company had two classes of authorized common stock, Class A common stock and Class B common stock. After the New York Stock Exchange ("NYSE") closed on November 21, 2003, each share of Class A common stock and each share of Class B common stock was reclassified into one share of new common stock. The new common stock is our only class of authorized common stock. The new common stock was listed on the NYSE under the symbol "PPC" and registered under the Securities Exchange Act of 1934. Except as to voting rights, the rights of the new common stock are substantially identical to the rights of the Class A common stock and Class B common stock. Each share of common stock that was reclassified into our new common stock is generally entitled to cast twenty votes on all matters submitted to a vote of the stockholders until there is a change in the beneficial ownership of such share. The reclassification had no significant effect on our Consolidated Financial Statements, as the combination of the Class A and Class B shares into a new class of common stock did not affect the overall shares of common stock outstanding. As of September 27, 2008, we estimate that approximately 25.9 million shares of our common stock still carry twenty votes per share. We also estimate that 25.3 million shares of this common stock are beneficially owned by our Senior Chairman, Lonnie "Bo" Pilgrim, or certain affiliated entities.

In May 2008, the Company completed a public offering of 7.5 million shares of its common stock for total consideration of approximately \$177.4 million (\$177.2 million, net of costs incurred to complete the sale). The Company used the net proceeds of the offering to reduce outstanding indebtedness under two of its revolving credit facilities and for general corporate purposes.

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."

## NOTE P—PENSION AND OTHER POSTRETIREMENT BENEFITS

### Retirement Plans

The Company maintains the following retirement plans for eligible employees:

- The Pilgrim's Pride Retirement Savings Plan (the "RS Plan"), a Section 401(k) salary deferral plan,
- The Pilgrim's Pride Retirement Plan for Union Employees (the "Union Plan"), a defined benefit plan,
- The Pilgrim's Pride Retirement Plan for El Dorado Union Employees (the "El Dorado" Plan), a defined benefit plan,
- The To-Ricos Employee Cash or Deferred Arrangement Profit Sharing Plan (the "To-Ricos Plan"), a Section 1165(e) salary deferral plan, and
- The Gold Kist Pension Plan (the "GK Pension Plan"), a defined benefit plan.

The Company also maintains three postretirement plans for eligible Mexico employees as required by Mexico law that primarily cover termination benefits. Separate disclosure of plan obligations is not considered material.

The RS Plan is maintained for certain eligible US employees. Under the RS Plan, eligible employees may voluntarily contribute a percentage of their compensation and there are various Company matching provisions. The Union Plan covers certain locations or work groups within the Company. The El Dorado Plan was spun off from the Union Plan effective January 1, 2008 and covers certain eligible locations or work groups within the Company. The To-Ricos Plan is maintained for certain eligible Puerto Rican employees. Under the To-Ricos Plan, eligible employees may voluntarily contribute a percentage of their compensation and there are various Company matching provisions. The GK Pension Plan covers certain eligible US employees who were employed at locations that Pilgrim's Pride acquired in its acquisition of Gold Kist in 2007. Participation in the GK Pension Plan was frozen as of February 8, 2007 for all participants with the exception of terminated vested participants who are or may become permanently and totally disabled. The plan was frozen for that group as of March 31, 2007.

Under all of our retirement plans, the Company's expenses were \$4.1 million, \$10.0 million and \$16.0 million in 2008, 2007 and 2006, respectively, including the correction of \$4.6 million, pretax, in 2006 as described in Note B—Summary of Significant Accounting Policies.

The Company used a year-end measurement date of September 27, 2008 for its pension and postretirement benefits plans. Certain disclosures are listed below; other disclosures are not material to the financial statements.

Medical and Life Insurance Plans

Pilgrim's Pride assumed postretirement medical and life insurance obligations through its acquisition of Gold Kist in 2007. In January 2001, Gold Kist began to substantially curtail its programs for active employees. On July 1, 2003, Gold Kist terminated medical coverage for retirees age 65 and older, and only retired employees in the closed group between ages 55 and 65 could continue their coverage at rates above the average cost of the medical insurance plan for active employees. These retired employees will all reach the age of 65 by 2012 and liabilities of the postretirement medical plan will then end.

Benefit Obligations and Plan Assets

The following tables provide reconciliations of the changes in the plans' projected benefit obligations and fair value of assets as well as statements of the funded status, balance sheet reporting and economic assumptions for these plans.

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
(In thousands)				
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	\$ 196,803	\$ 9,882	\$ 2,432	\$ —
Service cost	1,246	2,029	—	—
Interest cost	9,576	8,455	132	103
Plan participant contributions	29	61	79	681
Actuarial gains	(56,589)	(12,933)	(477)	(41)
Acquisitions	—	218,623	—	2,689
Prior year service cost	—	237	—	—
Benefits paid	(23,553)	(29,551)	(273)	(1,000)
Other	(158)	—	—	—
Projected benefit obligation, end of year	<u>\$ 127,354</u>	<u>\$ 196,803</u>	<u>\$ 1,893</u>	<u>\$ 2,432</u>

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
(In thousands)				
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 138,024	\$ 6,252	\$ —	\$ —
Acquisitions	—	139,229	—	—
Actual return on plan assets	(24,063)	11,571	—	—
Contributions by employer	2,543	10,462	194	319
Plan participant contributions	29	61	79	681
Benefits paid	(23,553)	(29,551)	(273)	(1,000)
Fair value of plan assets, end of year	<u>\$ 92,980</u>	<u>\$ 138,024</u>	<u>\$ —</u>	<u>\$ —</u>

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
(In thousands)				
Funded status:				
Funded status	\$ (34,374)	\$ (58,779)	\$ (1,893)	\$ (2,432)
Unrecognized prior service cost	121	237	—	—
Unrecognized net actuarial gain	(30,714)	(14,824)	(670)	(41)
Accrued benefit cost	<u>\$ (64,967)</u>	<u>\$ (73,366)</u>	<u>\$ (2,563)</u>	<u>\$ (2,473)</u>

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
(In thousands)				
Amounts recognized in the balance sheets:				
Accrued benefit cost (current)	\$ (13,596)	\$ (17,614)	\$ (203)	\$ (380)
Accrued benefit cost (long-term)	(20,778)	(41,165)	(1,690)	(2,052)
Long-term deferred income taxes	(11,549)	(4,942)	(253)	(16)
Accumulated other comprehensive income	(19,044)	(9,645)	(417)	(25)
Net amount recognized	<u>\$ (64,967)</u>	<u>\$ (73,366)</u>	<u>\$ (2,563)</u>	<u>\$ (2,473)</u>

The accumulated benefit obligation for all defined benefit plans was \$126.8 million and \$196.2 million at September 27, 2008 and September 29, 2007, respectively. All of the Company's defined benefit plans had an accumulated benefit obligation in excess of plan assets at September 27, 2008 and September 29, 2007.

Net Periodic Benefit Cost (Income)

The following table provides the components of net periodic benefit cost (income) for the plans.

	Pension Benefits			Other Benefits		
	2008	2007	2006	2008	2007	2006
(In thousands)						
Service cost	\$ 1,246	\$ 2,029	\$ 2,242	\$ —	\$ —	\$ —
Interest cost	9,576	8,455	458	132	103	—
Estimated return on plan assets	(10,200)	(8,170)	(454)	—	—	—
Settlement gain	(6,312)	(2,327)	—	153	—	—
Amortization of prior service cost	116	—	—	—	—	—
Effect of special events	(158)	—	—	—	—	—
Amortization of net gain	(125)	—	—	—	—	—
Net periodic benefit cost (income)	<u>\$ (5,857)</u>	<u>\$ (13)</u>	<u>\$ 2,246</u>	<u>\$ 285</u>	<u>\$ 103</u>	<u>\$ —</u>

### Economic Assumptions

The following table presents the assumptions used in determining the benefit obligations and the net periodic benefit cost amounts.

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Weighted average assumptions for benefit obligations at year end:				
Discount rate	7.38%	5.06%	7.53%	5.87%
Rate of increase in compensation levels	3.00%	3.00%	NA	NA
Weighted average assumptions for net periodic cost for the year:				
Discount rate	5.08%	5.06%	5.87%	5.50%
Rate of increase in compensation levels	3.00%	3.00%	NA	NA
Expected return on plan assets	7.77%	7.75%	7.75%	7.75%
Assumed health care cost trend rates:				
Health care cost trend rate assumed for next year	NA	NA	9.00%	8.00%
Rate to which the cost trend rate gradually declines	NA	NA	6.00%	5.00%
Year that the rate will reach the rate at which it is assumed to remain	NA	NA	2015	2014

The Company changed its approach in determining the discount rate from an annuity purchase rate approach to a yield curve approach. The effect has been an increase in the discount rate from September 29, 2007 to September 27, 2008. The yield curve approach better mirrors the Company's expectation that the termination of the GK Pension Plan and other benefit plans will not occur in the near future.

A one percentage-point change in the assumed health care cost trend rates would have an insignificant impact on 2008 expense and year-end liabilities.

### Plan Assets

The following table reflects the pension plans' actual asset allocations.

	2008	2007
Asset allocation:		
Cash and money market funds	1%	2%
Equity securities	68%	71%
Debt securities	31%	27%
Total assets	100%	100%

Absent regulatory or statutory limitations, the target asset allocation for the investment of the assets for our ongoing pension plans is 25% in debt securities and 75% in equity securities. The plans only invest in debt and equity instruments for which there is a ready public market. We develop our expected long-term rate of return assumptions based on the historical rates of returns for equity and debt securities of the type in which our plans invest.

### Benefit Payments

The following table reflects the benefits as of December 31, 2007 expected to be paid in each of the next five years and in the aggregate for the five years thereafter from our pension and other postretirement plans. Because our pension plans are primarily funded plans, the anticipated benefits with respect to these plans will come primarily from the trusts established for these plans. Because our other postretirement plans are unfunded, the anticipated benefits with respect to these plans will come from our own assets.

	Pension Benefits	Other Benefits
Expected benefit payments for year:	(In thousands)	
2009	\$ 13,596	\$ 204
2010	13,235	197
2011	12,554	171
2012	11,996	174
2013	11,459	176
2014—2018	<u>51,807</u>	<u>887</u>
Total	<u>\$ 114,647</u>	<u>\$ 1,809</u>

We anticipate contributing \$1.8 million and \$0.2 million to our pension and other postretirement plans, respectively, during 2009.

### Unrecognized Benefit Amounts in Accumulated Other Comprehensive Income

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefits cost at September 27, 2008 and the changes in these amounts during 2008 are as follows.

	Pension Benefits	Other Benefits
Components of accumulated other comprehensive income, before tax:	(In thousands)	
Net actuarial gain	\$ (30,714)	\$ (670)
Net prior service cost	121	—
Total	<u>\$ (30,593)</u>	<u>\$ (670)</u>

	Pension Benefits	Other Benefits
Changes in accumulated other comprehensive income, before tax:	(In thousands)	
Net actuarial gain, beginning of year	\$ (14,824)	\$ (41)
Amortization	125	—
Curtailment and settlement adjustments	6,312	(153)
Liability gain	(56,589)	(477)
Asset loss	34,264	—
Other	<u>(2)</u>	<u>1</u>
Net actuarial gain, end of year	<u>\$ (30,714)</u>	<u>\$ (670)</u>
Net prior service cost, beginning of year	\$ 237	\$ —
Amortization	<u>(116)</u>	<u>—</u>
Net prior service cost, end of year	<u>\$ 121</u>	<u>\$ —</u>

#### NOTE Q—DERIVATIVE FINANCIAL INSTRUMENTS

The Company purchases certain commodities, primarily corn and soybean meal, for use as ingredients in the feed it either sells commercially or consumes in its live operations. As a result, the Company's operating results and cash flows are affected by changes in the price and availability of such feed ingredients. The Company attempts to mitigate its exposure to these changes through a program of risk management that includes the use of (i) contracts for the future delivery of commodities at fixed prices and (ii) derivative financial instruments such as exchange-traded futures and options. The Company has elected not to designate the derivative financial instruments it executes to mitigate its exposure to commodity price changes as cash flow hedges. The Company recognized \$38.3 million in losses related to changes in the fair value of these derivative financial instruments during 2008. These losses are recorded in cost of sales. The impact of changes in the fair value of these derivative financial instruments in 2007 and 2006 was immaterial. The impact of changes in the fair value of these derivative financial instruments in 2007 and 2006 was immaterial. At September 27, 2008, the Company recorded a liability for futures contracts with an aggregate fair value of \$18.0 million executed to manage the price risk on 19.1 million bushels of corn and 0.3 million tons of soybean meal.

In October 2008, the Company suspended the use of derivative financial instruments in response to its current financial condition. It immediately settled all outstanding derivative financial instruments and recognized losses in October totaling \$18.4 million.

#### NOTE R—RELATED PARTY TRANSACTIONS

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

Transactions with the major stockholder or related entities are summarized as follows:

	2008	2007	2006
		(In thousands)	
Loan guaranty fees	\$ 4,904	\$ 3,592	\$ 1,615
Contract grower pay	1,008	885	976
Lease payments on commercial egg property	750	750	750
Other sales to major stockholder	710	620	747
Lease payments and operating expenses on airplane	456	507	492
Live chicken purchases from major stockholder	—	—	231

Pilgrim Interests, Ltd., an entity related to Lonnie "Bo" Pilgrim, guarantees a portion of the Company's debt obligations. In consideration of such guarantees, the Company has paid Pilgrim Interests, Ltd. a quarterly fee equal to 0.25% of one-half of the average aggregate outstanding balance of such guaranteed debt. During 2008, 2007 and 2006, we paid \$4.9 million, \$3.6 million and \$1.6 million, respectively, to Pilgrim Interests, Ltd. 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.

The Company has executed chicken grower contracts involving farms owned by the major stockholder as well as a farm owned by one former officer and director that provide for the placement of Company-owned flocks on these farms during the grow-out phase of production. These contracts are on terms substantially the same as contracts executed by the Company with unaffiliated parties and can be terminated by either party upon completion of the grow-out phase for each flock. The aggregate amounts paid by the Company to the officers and directors party to these grower contracts were less than \$2.0 million in each of the years 2008, 2007 and 2006.

The Company leases a commercial egg property including all of the ongoing costs of the operation from the Company's major stockholder. The lease, which was executed in December 2000, runs for ten years with a monthly lease payment of \$62.5 thousand.

The major stockholder owns both an egg laying operation and a chicken growing operation. At certain times during the year, the major stockholder may purchase live chickens and hens, and certain feed inventories during the grow-out phase for his flocks, from the Company and then sell the birds to the Company at maturity using a market-based formula in which the price is subject to a ceiling calculated at his cost plus two percent. The Company has not purchased chickens under this agreement since the first quarter of 2006 when the major stockholder recognized an operating margin of \$4.5 thousand on the aggregate amount paid by the Company to the major stockholder reflected in the line item Live chicken purchases from major stockholder in the table above.

The Company leases an airplane from its major stockholder under an operating lease agreement that is renewable annually. The terms of the lease agreement require monthly payments of \$33.0 thousand plus operating expenses. Lease expense was \$396.0 thousand for each of the years 2008, 2007 and 2006. Operating expenses were \$60.0 thousand, \$111.2 thousand and \$96.5 thousand in 2008, 2007 and 2006, respectively. The lease was terminated on November 18, 2008.

The Company maintains depository accounts with a financial institution in which the Company's major stockholder is also a major stockholder. Fees paid to this bank in 2008, 2007 and 2006 were insignificant. As of September 27, 2008, the Company had account balances at this financial institution of approximately \$2.4 million.

The major stockholder has deposited \$0.3 million with the Company as an advance on miscellaneous expenditures.

A son of the major stockholder sold commodity feed products and a limited amount of other services to the Company aggregating approximately \$0.4 million and \$0.6 million in 2008 and 2007, respectively. He also leases an insignificant amount of land from the Company.



## NOTE 5—COMMITMENTS AND CONTINGENCIES

### General

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.

### Purchase Obligations

The Company will sometimes enter into non-cancelable contracts to purchase capital equipment and certain commodities such as corn, soybean meal, cooking oil and natural gas. At September 27, 2008, the Company was party to outstanding purchase contracts totaling \$164.9 million. Payments for purchases made under these contracts are due in less than 1 year.

### Operating Leases

The Consolidated Statements of Operations include rental expense for operating leases of approximately \$71.3 million, \$67.3 million and \$54.0 million in 2008, 2007 and 2006, respectively. The Company's future minimum lease commitments under non-cancelable operating leases are as follows: 2009—\$43.6 million; 2010—\$34.6 million; 2011—\$27.4 million; 2012—\$15.3 million; 2013—\$8.0 million and thereafter—\$1.7 million.

Certain of the Company's operating leases include rent escalations. The Company includes the rent escalation in its minimum lease payments obligations and recognizes them as a component of rental expense on a straight-line basis over the minimum lease term.

The Company also maintains 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. The maximum potential amount of the residual value guarantees is estimated to be 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 such guarantees is immaterial. The Company historically has not experienced significant payments under similar residual guarantees.

### Financial Instruments

At September 27, 2008, the Company had \$111.2 million in letters of credit outstanding relating to normal business transactions. Letters of credit totaling \$86.0 million affect the availability of credit under our \$300.0 million secured revolving credit facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%.

The Company's loan agreements generally obligate the Company 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 the Company's loan agreements contain a withholding tax provision that requires the Company 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 the Company could be obligated to pay under such provisions. Any failure to pay amounts due under such provisions generally would trigger an event of default, and, in a secured financing transaction, would entitle the lender to foreclose upon the collateral to realize the amount due.

#### Litigation

The Company is subject to various legal proceedings and claims which arise in the ordinary course of business. In the Company's opinion, it has made appropriate and adequate accruals for claims where necessary, and the Company believes the probability of material losses beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if significantly different than the amounts accrued, the ultimate outcome could have a material effect on the financial condition or results of operations of the Company. On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business. Below is a summary of the most significant claims outstanding against the Company. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

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

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

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

#### NOTE T—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 and Puerto Rico and in Mexico and is reported as two separate geographical areas.

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



- (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 Company had one customer that represented 10% or more of annual net sales in 2008, 2007 and 2006.

The Company's Mexico operations had net long-lived assets of \$97.2 million, \$106.2 million, and \$116.9 million at September 27, 2008, September 29, 2007 and September 30, 2006, respectively.

The Company's Mexico operations had net assets of \$230.5 million and \$284.8 million and at September 27, 2008 and September 29, 2007, respectively.

NOTE U—QUARTERLY RESULTS (UNAUDITED)

2008	First	Second <sup>(a)</sup>	Third <sup>(b)</sup>	Fourth <sup>(c)</sup>	Year
	(In thousands, except per share data)				
Net sales	\$ 2,047,353	\$ 2,100,794	\$ 2,207,476	\$ 2,169,489	\$ 8,525,112
Gross profit (loss)	105,103	(35,401)	53,211	(286,408)	(163,495)
Operating income (loss)	670	(143,629)	(42,531)	(872,206)	(1,057,696)
Loss from continuing operations	(33,166)	(111,501)	(48,344)	(799,161)	(992,172)
Income (loss) from operation of discontinued business	837	(850)	(4,437)	(2,862)	(7,312)
Gain on disposal of discontinued business	—	903	—	—	903
Net loss	(32,329)	(111,448)	(52,781)	(802,023)	(998,581)
Per share amounts:					
Continuing operations	\$ (0.50)	\$ (1.67)	\$ (0.69)	\$ (10.79)	\$ (14.31)
Discontinued business	0.01	—	(0.06)	(0.04)	(0.09)
Net loss	(0.49)	(1.67)	(0.75)	(10.83)	(14.40)
Dividends	0.0225	0.0225	0.0225	0.0225	0.0900
Number of days in quarter	91	91	91	91	364

- (a) The company recognized restructuring charges of \$17.7 million in the second quarter of 2008.
- (b) The Company recognized gains on derivative financial instruments of \$102.4 million in the third quarter of 2008.
- (c) The Company recognized goodwill impairment of \$501.4 million, losses on derivative financial instruments of \$155.7 million, restructuring charges of \$8.1 million and valuation allowances of \$34.6 million in the fourth quarter of 2008.

2007	First <sup>(a)</sup>	Second	Third	Fourth	Year
	(In thousands, except per share data)				
Net sales	\$ 1,291,957	\$ 1,987,185	\$ 2,104,499	\$ 2,114,971	\$ 7,498,612
Gross profit	62,238	84,049	234,825	211,618	592,730
Operating income (loss)	(4,902)	(10,674)	136,896	115,871	237,191
Income (loss) from continuing operations	(9,827)	(39,018)	63,277	37,084	51,516
Income (loss) from operation of discontinued business	1,091	(1,059)	(636)	(3,895)	(4,499)
Net income (loss)	(8,736)	(40,077)	62,641	33,189	47,017
Per share amounts:					
Continuing operations	\$ (0.15)	\$ (0.59)	\$ 0.95	\$ 0.56	\$ 0.77
Discontinued business	0.02	(0.01)	(0.01)	(0.06)	(0.06)
Net income (loss)	(0.13)	(0.60)	0.94	0.50	0.71
Dividends	0.0225	0.0225	0.0225	0.0225	0.0900
Number of days in quarter	91	91	91	91	364

- (a) The Company acquired Gold Kist 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.

SCHEDULE II  
PILGRIM'S PRIDE CORPORATION  
VALUATION AND QUALIFYING ACCOUNTS

	Beginning Balance	Additions		Deductions (b)	Ending Balance
		Charged to Costs and Expenses	Charged to Other Accounts		
(In thousands)					
Trade Accounts and Other Receivables—					
Allowance for Doubtful Accounts:					
2008	\$ 5,017	\$ 1,956	\$ —	\$ 2,272	\$ 4,701
2007	2,155	4,751	424 (a)	2,313	5,017
2006	4,818	(185)	—	2,478	2,155
Deferred Tax Assets—					
Valuation Allowance:					
2008	\$ 308	\$ 70,850	\$ —	\$ —	\$ 71,158
2007	—	—	308	—	308
2006	—	—	—	—	—

- (a) Adjustment to balance established for accounts receivable acquired from Gold Kist.  
(b) Uncollectible accounts written off, net of recoveries.



Exhibit Index

- 2.1 Agreement and Plan of Reorganization dated September 15, 1986, by and among Pilgrim's Pride Corporation, a Texas corporation; Pilgrim's Pride Corporation, a Delaware corporation; and Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston, Evanne Pilgrim, Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Greta Pilgrim Owens and Patrick Wayne Pilgrim (incorporated by reference from Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 2.2 Agreement and Plan of Merger dated September 27, 2000 (incorporated by reference from Exhibit 2 of WLR Foods, Inc.'s Current Report on Form 8-K (No. 000-17060) dated September 28, 2000).
- 2.3 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended October 2, 2004).
- 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 4.4 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004).
- 4.1 Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1).
- 4.2 Amended and Restated Corporate Bylaws of the Company (included as Exhibit 3.2).
- 4.3 Indenture, dated November 21, 2003, between Pilgrim's Pride Corporation and The Bank of New York as Trustee relating to Pilgrim's Pride's 9 1/4% Senior Notes due 2013 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.4 Form of 9 1/4% Note due 2013 (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.5 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).

- 4.7 Form of 7 5/8% Senior Note due 2015 (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.8 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.9 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.10 Form of 8 3/8% Subordinated Note due 2017 (incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Pilgrim's Industries, Inc. Profit Sharing Retirement Plan, restated as of July 1, 1987 (incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed on July 1, 1992). ⑤
- 10.2 Senior Executive Performance Bonus Plan of the Company (incorporated by reference from Exhibit A in the Company's Proxy Statement dated December 13, 1999). ⑤
- 10.3 Aircraft Lease Extension Agreement between B.P. Leasing Co. (L.A. Pilgrim, individually) and Pilgrim's Pride Corporation (formerly Pilgrim's Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.4 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.5 Commercial Egg Grower Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.6 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q for the three months ended January 2, 1999).
- 10.7 Heavy Breeder Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farms 44, 45 & 46) (incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).

- 10.8 Broiler Grower Contract dated January 9, 1997 by and between Pilgrim's Pride and O.B. Goolsby, Jr. (incorporated by reference from Exhibit 10.25 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.9 Broiler Grower Contract dated January 15, 1997 by and between Pilgrim's Pride Corporation and B.J.M. Farms (incorporated by reference from Exhibit 10.26 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.10 Broiler Grower Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler (incorporated by reference from Exhibit 10.27 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.11 Purchase and Contribution Agreement dated as of June 26, 1998 between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.34 of the Company's Quarterly Report on Form 10-Q for the three months ended June 27, 1998).
- 10.12 Guaranty Fee Agreement between Pilgrim's Pride Corporation and Pilgrim Interests, Ltd., dated June 11, 1999 (incorporated by reference from Exhibit 10.24 of the Company's Annual Report on Form 10-K for the year ended October 2, 1999).
- 10.13 Commercial Property Lease dated December 29, 2000 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the three months ended December 30, 2000).
- 10.14 Amendment No. 1 dated as of December 31, 2003 to Purchase and Contribution Agreement dated as of June 26, 1998, between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed February 4, 2004).
- 10.15 Employee Stock Investment Plan of the Company (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004). ⑤
- 10.16 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 27, 2004). ⑤
- 10.17 Vendor Service Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.18 Transportation Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K dated January 6, 2006).

- 10.19 Credit Agreement by and among the Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the "Borrower"), Pilgrim's Pride Corporation, certain Mexico subsidiaries of the Borrower, ING Capital LLC, and the lenders signatory thereto dated as of September 25, 2006 (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.20 2006 Amended and Restated Credit Agreement by and among CoBank, ACB, Agriland, FCS and the Company dated as of September 21, 2006 (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.21 First Amendment to the Pilgrim's Pride Corporation Amended and Restated 2005 Deferred Compensation Plan Trust, dated as of November 29, 2006 (incorporated by reference from Exhibit 10.03 of the Company's Current Report on Form 8-K filed on December 05, 2006). ⑤
- 10.22 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 10.23 First Amendment to Credit Agreement, dated as of December 13, 2006, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on December 19, 2006).
- 10.24 Second Amendment to Credit Agreement, dated as of January 4, 2007, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on January 9, 2007).
- 10.25 Fourth Amended and Restated Secured Credit Agreement, dated as of February 8, 2007, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as agent, SunTrust Bank, as syndication agent, U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents, BMO Capital Market, as lead arranger, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated February 12, 2007).

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PILGRIM'S PRIDE CORPORATION  
September 27, 2008

- 10.26 Third Amendment to Credit Agreement, dated as of February 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.02 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.27 First Amendment to Credit Agreement, dated as of March 15, 2007, by and among the Borrower, the Company, the Subsidiary Guarantors, ING Capital LLC, and the Lenders (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated March 20, 2007).
- 10.28 Fourth Amendment to Credit Agreement, dated as of July 3, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed July 31, 2007).
- 10.29 Retirement and Consulting Agreement dated as of October 10, 2007, between the Company and Clifford E. Butler (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 10, 2007). ⑤
- 10.30 Fifth Amendment to Credit Agreement, dated as of August 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.39 of the Company's Annual Report on Form 10-K filed on November 19, 2007).
- 10.31 Sixth Amendment to Credit Agreement, dated as of November 7, 2007, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 13, 2007).
- 10.32 Ground Lease Agreement effective February 1, 2008 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 1, 2008).
- 10.33 Seventh Amendment to Credit Agreement, dated as of March 10, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 20, 2008).

- 10.34 First Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of March 11, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.35 Eighth Amendment to Credit Agreement, dated as of April 30, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.36 Second Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of April 30, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.37 Change to Company Contribution Amount Under the Amended and Restated 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed July 30, 2008). ©
- 10.38 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.39 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.40 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.41 Amended and Restated Receivables Purchase Agreement dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 29, 2008).

- 10.42 Amendment No. 1 dated as of October 10, 2008 to Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto.\*
- 10.43 Amendment No. 2 to Purchase and Contribution Agreement dated as of September 26, 2008 among Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.44 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.45 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.46 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.47 Form of Change in Control Agreement dated as of October 21, 2008 between the Company and certain of its executive officers (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 27, 2008). ⑤
- 10.48 First Amendment to Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated November 25, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto.\*
- 10.49 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto.\*
- 10.50 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC.\*
- 10.51 Waiver Agreement and Second Amendment to Credit Agreement dated November 30, 2008, by and among the Company and certain non-debtor Mexico subsidiaries of the Company, ING Capital LLC, as agent, and the lenders signatory thereto.\*
- 10.52 Post-Petition Credit Agreement dated December 2, 2008 by and among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent, and the lenders party thereto.\*

<u>12</u>	Ratio of Earnings to Fixed Charges for the years ended September 27, 2008, September 29, 2007, September 30, 2006, October 1, 2005, October 2, 2004, and September 27, 2003.*
<u>21</u>	Subsidiaries of Registrant.*
<u>23</u>	Consent of Ernst & Young LLP.*
<u>31.1</u>	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>31.2</u>	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>31.3</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
<u>32.2</u>	Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
<u>32.3</u>	Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

\*Filed herewith

Ⓢ Represents a management contract or compensation plan arrangement





# PILGRIMS PRIDE CORP

4845 US HWY. 271 N.  
PITTSBURG, TX 75686  
903. 434.1402

## 10-K/A

**PILGRIM'S PRIDE CORPORATION AMENDED 10/K**  
Filed on 01/26/2009 – Period: 09/27/2008  
File Number 001-09273



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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A  
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended September 27, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 1-9273



PILGRIM'S PRIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-1285071

(I.R.S. Employer Identification No.)

4845 US Hwy 271 North  
Pittsburg, Texas  
(Address of principal executive offices)

75686-0093

(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value \$0.01

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12B-2 of the Exchange Act.

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

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

The aggregate market value of the Registrant's Common Stock, \$0.01 par value, held by non-affiliates of the Registrant as of March 29, 2008, was \$829,596,309. For purposes of the foregoing calculation only, all directors, executive officers and 5% beneficial owners have been deemed affiliates.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Number of shares of the Registrant's Common Stock outstanding as of December 11, 2008, was 74,055,733.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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#### EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this "Amendment") amends Pilgrim's Pride Corporation's (the "Company") Annual Report on Form 10-K for the fiscal year ended September 27, 2008, originally filed on December 11, 2008 (the "Original Filing"). We are filing this Amendment to include the information required by Part III and not included in the Original Filing as we will not file our definitive proxy statement within 120 days of the end of the Company's fiscal year ended September 27, 2008. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment certain currently dated certifications. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Original Filing. In this Amendment, unless the context indicates otherwise, the terms "Company," "we," "us," and "our" refer to Pilgrim's Pride Corporation and its subsidiaries.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Executive Officers

Certain information regarding our executive officers has been presented under "Executive Officers" included in "Item 1. Business" of our Form 10-K filed with the Securities and Exchange Commission (the "SEC") on December 11, 2008. In connection with our restructuring process, on December 16, 2008, J. Clinton Rivers resigned from his position as Chief Executive Officer and President of the Company, and Robert A. Wright resigned from his position as Chief Operating Officer of the Company.

On December 16, 2008, the Board appointed Don Jackson as our President and Chief Executive Officer, subject to the approval of the Bankruptcy Court. Prior to joining the Pilgrim's, Dr. Jackson, 57, served as president of Foster Farms' poultry division, since 2000. Prior to that, he served as executive vice president for foodservice of the former ConAgra Poultry Company. Before that he worked for 22 years for Seaboard Farms, including four years as president and chief executive officer.

#### Board of Directors

Our bylaws specify that the Board of Directors shall consist of not less than one member, with the actual number of directors being fixed by the Board. Our Board of Directors currently has eleven members, and there is one vacancy on the Board as a result of the resignation of J. Clinton Rivers on December 16, 2008. The Board is working to identify a qualified candidate to fill the vacancy.

#### Our Directors

Lonnie "Bo" Pilgrim, 80, has served as Senior Chairman of the Board since July 2007. He served as Chairman of the Board from our organization in July 1968 until July 2007. He also served as Chief Executive Officer from July 1968 to June 1998. Prior to our incorporation, Mr. Pilgrim was a partner in our predecessor partnership business founded in 1946.

Lonnie Ken Pilgrim, 50, has served as Chairman of the Board since July 2007 and as interim President since December 2008. He served as Executive Vice President, Assistant to Chairman from November 2004 until July 2007, and he served as Senior Vice President, Transportation from August 1997 to November 2004. Prior to that, he served as Vice President of Transportation. He has been a member of the Board of Directors since March 1985, and he has been employed by Pilgrim's Pride since 1977. He is a son of Lonnie "Bo" Pilgrim.

Richard A. Cogdill, 48, has served as Chief Financial Officer, Secretary and Treasurer (our Principal Financial and Accounting Officer) since January 1997. He became a Director in September 1998. Previously, he served as Senior Vice President, Corporate Controller, from August 1992 through December 1996 and as Vice President, Corporate Controller, from October 1991 through August 1992. Prior to October 1991, he was a Senior Manager with Ernst & Young LLP. He is a Certified Public Accountant.

Charles L. Black, 79, was previously a Director of the Company from 1968 to August 1992 and has served as a Director since his re-election in February 1995. He was Senior Vice President, Branch President of NationsBank, Mt. Pleasant, Texas, from December 1981 to his retirement in February 1995.

Linda Chavez, 61, was appointed a Director in July 2004. She has been Chairman of the Center for Equal Opportunity, a non-profit public policy research organization in Sterling, Virginia, since January 1, 2006 and previously served as its President from 1995 until her election as Chairman. Previously, she served as Chairman, National Commission on Migrant Education from 1988 to 1992 and White House Director of Public Liaison in 1985. She also serves on the board of directors of ABM Industries, Inc., a facilities service contractor, as well as on the boards of several non-profit organizations.

S. Key Coker, 51, was appointed a Director in September 2000. Since 1992, he has served as Executive Vice President of Compass Bank, a subsidiary of Banco Bilbao Vizcaya Argentaria, a \$600 billion bank with offices in 36 countries. He is a career banker with 28 years of experience in banking.

Keith W. Hughes, 62, was appointed a Director in September 2004. He was Chairman and CEO of Dallas-based Associates First Capital from 1994 to 2000 when it merged with Citigroup, and he served as Associates First Capital's President and Chief Operating Officer from 1991 to 1994. Prior to joining Associates, he held various roles in the financial services industry, working for Continental Illinois Bank in Chicago, Northwestern Bank in Minneapolis and Crocker Bank in San Francisco. Mr. Hughes also serves as a director and audit committee member of Texas Industries, Inc., a producer of cement, concrete and aggregate construction material, and Fidelity National Information Services. He is a former Vice Chairman and member of the Board of Directors of Citigroup.

Blake D. Lovette, 66, was appointed a Director in November 2003. He has served as a consultant to companies serving the food industry and has been a private investor since July 2002. From 1998 to June 2002, he was President of ConAgra Poultry Company, a fully-integrated chicken processing business engaged in the production, processing, marketing and distribution of fresh and frozen chicken products. Mr. Lovette has served as a poultry company executive for many years. He was President and Chief Operating Officer of Valmac Industries from 1979 to 1985. From 1985 to 1988, Mr. Lovette led the Shenandoah Products Corporation operations of Perdue Farms. He was President and Chief Operating Officer of poultry operations of Holly Farms Corporation from 1988 to 1990, and was with the Lovette Company from 1990 to 1998.

Vance C. Miller, Sr., 75, was elected a Director in September 1986. Mr. Miller has been Chairman of Vance C. Miller Interests, a real estate development company formed in 1977, and has served as the Chairman of the Board and Chief Executive Officer of Henry S. Miller Cos., a Dallas, Texas, real estate services firm, since 1991. Mr. Miller was appointed by the President of the United States to serve as Director of Fannie Mae from 1986 to 1989.

James G. Vetter, Jr., 74, has served as a Director since 1981. Mr. Vetter has practiced law in Dallas, Texas, since 1966. He is of counsel to the Dallas law firm of GodwinRonquillo PC. Mr. Vetter is a Board-Certified Tax Law Specialist and served as a lecturer and author in tax matters.

Donald L. Wass, Ph.D., 76, was elected a Director in May 1987. He has been President of the William Oncken Company of Texas, a time management consulting company, since 1970. Dr. Wass is also President of TECTexas DFW, a firm that specializes in the continued development of Presidents/CEOs.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and Directors, and persons who own more than ten percent of our common stock, to file reports of ownership and changes in ownership with the SEC. Officers, Directors and greater than ten-percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based on our review of the copies of such forms, we believe that all filing requirements applicable to our officers, Directors and greater than ten-percent stockholders for fiscal 2008 were complied with.



Code of Business Conduct and Ethics and Corporate Governance Policies

Our Board of Directors has adopted a Code of Business Conduct and Ethics and Corporate Governance Policies of the Board of Directors. The full texts of the Code of Business Conduct and Ethics and Corporate Governance Policies are posted on our website at [www.pilgrimspride.com](http://www.pilgrimspride.com), under the “Investors – Corporate Governance” caption and are also available in print to any stockholder who requests them. We intend to disclose future amendments to, or waivers from, certain provisions of the Code of Business Conduct and Ethics on our website within four business days following the date of such amendment or waiver.

Audit Committee of the Board of Directors

To assist in carrying out its duties, the Board of Directors has delegated certain authority to the Audit Committee. The members of the Audit Committee are Vance C. Miller, Sr., Linda Chavez and Keith W. Hughes. Our Audit Committee’s responsibilities include selecting our independent public accounting firm, reviewing the plan and results of the audit performed by our independent registered public accounting firm and the adequacy of our systems of internal accounting controls, and monitoring compliance with our conflicts of interest and business ethics policies. The Audit Committee is composed entirely of Directors who the Board of Directors has determined to be independent within the meaning of the NYSE listing standards. Although our common stock was delisted from trading on the New York Stock Exchange on December 1, 2008, our Board of Directors has elected to continue to apply the corporate governance criteria set forth in the NYSE listing standards. The Board has determined that each of the members of the Audit Committee is financially literate and that Keith W. Hughes is an “audit committee financial expert” within the meaning of the regulations of the SEC. The Audit Committee has an Audit Committee Charter, which is available on our website at [www.pilgrimspride.com](http://www.pilgrimspride.com), under the “Investors – Corporate Governance” caption. The Audit Committee Charter is also available in print to any stockholder who requests it.

ITEM 11. EXECUTIVE COMPENSATION

REPORT OF THE COMPENSATION COMMITTEE

The primary functions of the Compensation Committee (the “Committee”) of the Board of Directors of Pilgrim’s Pride Corporation (the “Company”) are to review and approve executive officer compensation and employee compensation matters and oversee the administration of our Senior Executive Performance Bonus Plan for key members of management and the Company’s employee benefit plans, independently or in conjunction with the Board of Directors, as appropriate.

The Committee has reviewed and discussed the Compensation Discussion and Analysis (the “CD&A”) for the year ended September 27, 2008, with management. In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the CD&A be included in the Company’s Form 10-K/A, to be filed with the Securities and Exchange Commission.

Compensation Committee

Lonnie “Bo” Pilgrim  
Lonnie Ken Pilgrim  
Vance C. Miller, Sr.  
James G. Vetter, Jr.  
Blake D. Lovette

Compensation Subcommittee

Charles L. Black  
Vance C. Miller, Sr.

January 26, 2009

#### Compensation Committee Interlocks and Insider Participation

During fiscal 2008, the members of the Compensation Committee were Lonnie “Bo” Pilgrim, our Senior Chairman, Lonnie Ken Pilgrim, our Chairman, Vance C. Miller, Sr., James G. Vetter, Jr. and Blake D. Lovette.

The Company has been and continues to be a party to certain transactions with Lonnie “Bo” Pilgrim and his children, including Ken Pilgrim, and a law firm affiliated with James G. Vetter, Jr. These transactions, along with all other transactions between the Company and affiliated persons, require the prior approval of the Audit Committee of the Board of Directors, and the Audit Committee has approved each of these transactions. Set forth below is a summary of these transactions.

At certain times during previous years, the Company has entered into risk transfer transactions with Lonnie “Bo” Pilgrim whereby Mr. Pilgrim purchased certain amounts of the Company’s live chickens and hens, feed inventory and veterinary and technical services during the grow-out process and then contracted with the Company to re-sell the birds at maturity. Chicks, feed and services were purchased from the Company for their fair market value, and the Company purchased the mature chickens from Mr. Pilgrim at a market-based formula price subject to a ceiling price calculated at Lonnie “Bo” Pilgrim’s cost plus two percent. No purchases have been made by the Company under this agreement since the first quarter of fiscal 2006.

We have entered into chicken grower contracts involving farms owned by certain of our officers, providing the placement of Pilgrim’s Pride-owned flocks on their farms during the grow-out phase of production. These contracts are on terms substantially the same as contracts we enter into with unaffiliated parties and can be terminated by either party upon completion of the grow-out of each flock. The aggregate amount paid by us to Lonnie “Bo” Pilgrim under these grower contracts during fiscal 2008 was \$1,007,865.

Additionally, we process the payroll for certain employees of Lonnie “Bo” Pilgrim and Pilgrim Poultry G.P. (“PPGP”) as well as perform certain administrative bookkeeping services for Mr. Pilgrim’s personal businesses. Lonnie “Bo” Pilgrim is the sole proprietor of PPGP. During fiscal 2008, PPGP paid the Company \$542,418 for general supplies and the services described above.

PPGP also rents facilities to us for the production of eggs. On December 29, 2000, we entered into an agreement with PPGP to rent its egg production facilities for a monthly amount of \$62,500. During fiscal 2008, we paid rental on the facilities of \$750,000 to PPGP. Our management believes that the terms of this agreement with PPGP are substantially similar to, and contain terms not less favorable to us than, agreements obtainable from unaffiliated parties.

The Company also maintains depository accounts with a financial institution of which Lonnie “Bo” Pilgrim is a major stockholder. Fees paid to this bank in fiscal 2008 are insignificant, and as of September 27, 2008, we had bank balances at this financial institution of approximately \$2,385,615.

Since 1985, we have leased an airplane from Lonnie “Bo” Pilgrim under a lease agreement which provides for monthly lease payments of \$33,000 plus operating expenses, which terms our management believes to be substantially similar to those obtainable from unaffiliated parties.

During fiscal 2008, we had lease expenses of \$396,000 and operating expenses of \$59,970 associated with the use of this airplane. On November 18, 2008, we cancelled this aircraft lease.

A portion of the Company's debt obligations have been guaranteed by Pilgrim Interests, Ltd., an entity related to our Senior Chairman, Lonnie "Bo" Pilgrim. In consideration of such guarantees, the Company has paid Pilgrim Interests, Ltd. a quarterly fee equal to 0.25% of one-half of the average aggregate outstanding balance of such guaranteed debt. During fiscal 2008, we paid \$4,904,301 to Pilgrim Interests, Ltd.

Certain members of the family of Lonnie "Bo" Pilgrim are employed by us, including: his son, Lonnie Ken Pilgrim, our Chairman. Additionally, his son, Pat Pilgrim; and his daughter, Greta Pilgrim-Owens, were employed by the company and received total compensation for fiscal 2008 of \$544,077, \$220,281 and \$227,669, respectively.

From time to time, the Company has purchased grain from Pat Pilgrim in transactions pre-approved by the Audit Committee. We paid him \$392,398 for such purchases in fiscal 2008. Pat Pilgrim also provided hauling services to us in fiscal 2008, for which he was paid \$47,962. He also paid the Company \$27,696 in fiscal 2008 for land he leases from us. On November 30, 2005, the Audit Committee pre-approved us entering into three contracts with Pat Pilgrim, including a general services agreement, a transportation agreement and a lease. On January 28, 2008, the Audit Committee approved the new ground lease agreement with Mr. Pilgrim. In February 2008, we entered into the new ground lease agreement pursuant to which Mr. Pilgrim rents 1,731 acres of land from the Company for annual lease payments totaling \$27,696. The lease agreement, which is for a one year term, renews for an additional year at the end of each term, but the agreement can be terminated by either party without cause. At the end of each year, the Company and Mr. Pilgrim may reevaluate the acreage and the rental rate under the lease and may amend those items, but only after pre-approval by the Audit Committee. Management believes the terms of these contracts and transactions are substantially similar to those obtainable from unaffiliated parties.

James G. Vetter, Jr., is of counsel to GodwinRonquillo PC, a Dallas law firm that represents us in connection with a variety of legal matters. We did not pay any fees to GodwinRonquillo PC in fiscal 2008.

We also employ Blake Lovette's son-in-law, Ted Lankford, our Complex Manager at Athens, AL, who was paid total compensation of \$132,350 in fiscal 2008.

## COMPENSATION DISCUSSION AND ANALYSIS

We have a Compensation Committee consisting of Lonnie “Bo” Pilgrim, the co-founder and Senior Chairman of the Board, his son, Lonnie Ken Pilgrim, Chairman of the Board, and three independent directors including Vance C. Miller, Sr., James G. Vetter, Jr. and Blake D. Lovette. The Compensation Committee is responsible for establishing executive compensation and overseeing the administration of our incentive plans and employee benefit plans.

The objectives of our compensation program are to attract, retain and motivate competent executive officers who have the experience and ability to contribute to the success of our business. Given the many changes our company and our industry have undergone leading to our filing of voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code, in the last quarter of fiscal 2008 the Compensation Committee focused its efforts on retaining key members of our management to maintain stability and continuity. In light of the challenges that we expect to face as we reorganize our business, the Compensation Committee believes that stability among key members of our management team is an important corporate goal. To this end, our compensation program is designed to reward effectiveness, efficiency, flexibility and commitment with the goal of retaining and motivating our executives to achieve our corporate objectives.

The individual judgments made by the Compensation Committee are subjective and are based largely on the recommendations of Lonnie “Bo” Pilgrim and the committee’s perception of each executive’s contribution to both the Company’s past performance and its long-term growth potential. The committee attempts to ensure that the total compensation paid to each executive officer is fair, reasonable, competitive and motivational. Periodically, the committee reviews survey data on similar positions with similar companies. Additionally, the committee believes that in order to maximize the success of the Company, all of our employees must operate as a team. Accordingly, the committee believes that it is important that our compensation program be designed to reward behavior benefiting the Company as a whole and avoid the creation of incentives that may cause employees to act in a manner that is inconsistent with the best interests of the Company as a whole. In fiscal 2008, our executive officers were employed at will, without employment agreements. Since the end of fiscal 2008, we have entered into change in control agreements with certain executives and an employment agreement with our newly appointed President and Chief Executive Officer. Due to our filing of voluntary petitions for relief under Chapter 11 of the Bankruptcy Code, any new compensation arrangements must be approved by the Bankruptcy Court.

This Compensation Discussion and Analysis provides information regarding the compensation programs in place for our principal executive officer, principal financial officer and four other most highly compensated executive officers (“named executive officers”) for the year ended September 27, 2008. The principal elements of compensation for our executive officers are (a) base salary, (b) incentive compensation under our Senior Executive Performance Bonus Plan described below, when available, (c) the Company’s contributions to the Employee Stock Investment Plan, (d) the Company’s contributions to our 401(k) salary deferral plan, (e) certain perquisites and other personal benefits, and (f) on occasion, discretionary bonuses. We do not have a formal stock ownership requirement for our executives.

### Role of Executive Officers in Compensation Decisions

Lonnie “Bo” Pilgrim, our co-founder and Senior Chairman and a member of the Compensation Committee, annually reviews the performance of all executive officers and key employees with the full Compensation Committee and makes recommendations of base salaries and bonuses based on these reviews. The Committee considers these reviews and recommendations and then exercises its discretion in adopting or modifying any recommended salaries and bonuses.

## Compensation Consultant

The Compensation Committee retained Hewitt Associates, LLC (“Hewitt”) as its compensation consultant in fiscal 2008 to help evaluate and address management retention issues related to the Company’s challenging business environment in 2008. After analyzing the levels and composition of our base and incentive compensation program, Hewitt provided the committee with recommendations for improvement, including the adoption of new incentive compensation and retention plans, change of control agreements and the modification of certain existing compensation plans. Due to our filing of voluntary petitions for relief under Chapter 11 of the Bankruptcy Code, any new compensation arrangements must be approved by the Bankruptcy Court.

## Base Salary

We provide our named executive officers and other employees with a base salary to provide a fixed amount of compensation for services during the fiscal year. Base salaries are subjectively determined by the Compensation Committee for each of the executive officers on an individual basis, taking into consideration a subjective assessment of individual contributions to Company performance, length of tenure, compensation levels for comparable positions and internal equities among positions. On September 24, 2008, the Compensation Committee completed its annual compensation review with respect to the executive officers of the Company and determined that compensation levels would remain unchanged.

## Cash Bonus

The Pilgrim’s Pride Corporation Senior Executive Performance Bonus Plan (the “Bonus Plan”) is intended to align executives’ interests with Company performance and to reward participants’ contributions to Company success. The Bonus Plan is designed to award annual cash bonuses to executive officers and other management personnel based on our performance and profitability in the year with respect to which the bonus is awarded. The Bonus Plan was approved by our stockholders at the Annual Meeting of Stockholders held in 2000. Stockholder approval was obtained to satisfy certain requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), regarding executive compensation. The Bonus Plan will be treated as an executory contract in our reorganization. We are currently in the process of evaluating our executory contracts in order to determine which contracts will be assumed in our Chapter 11 proceedings subject to the approval of the Bankruptcy Court.

The Bonus Plan provides for 5% of our U.S. income before income taxes to be allocated among certain key members of management, including all of our named executive officers. When available, such amount is allocated among all plan participants based on the ratio of each participant’s eligible salary to the aggregate salaries of all participants and the number of months of the fiscal year the participant was approved for participation. The Bonus Plan also provides for a subcommittee to administer the plan provisions dealing with certain designated Section 162(m) participants, which for fiscal 2009 will include Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, Don Jackson and Richard A. Cogdill if the Bonus Plan receives Bankruptcy Court approval and, if necessary, stockholder approval. The Compensation Committee retains the right, in its sole discretion, to reduce, increase or eliminate, prior to payment thereof, the amount of any bonus that would otherwise be payable under the Bonus Plan to non-Section 162(m) participants, and the Compensation Subcommittee retains these same rights, except for the right to increase bonus amounts, for designated Section 162(m) participants. Participants may generally be added or removed from the plan at the discretion of the Compensation Committee. Participants must generally continue to be employed by us on January 1 following the end of a fiscal year in order to be paid a bonus with respect to that year. Bonuses are typically paid during the January following the fiscal year with respect to which the bonus has been granted. No bonuses were paid under the Bonus Plan for fiscal 2008.

## Other Executive Compensation Matters

Executive officers may participate on the same basis as other employees in the employee matching and profit-sharing provisions of the Company's 401(k) salary deferral plan. Contributions to the Company's 401(k) salary deferral plan are made up of a 30% matching contribution on the first 6% of pay and an additional matching contribution on up to 6% of an executive's compensation, subject to an overall contribution limit for all employee 401(k) and other profit sharing plans of 5% of domestic income before taxes.

All full-time employees in the U.S. are eligible to participate in the 401(k) salary deferral plan described above. We do not have any other pension plan for our executive officers.

The Company has historically maintained an Employee Stock Investment Plan pursuant to which we contributed an amount equal to 33 1/3% of an officer's payroll deduction for purchases of our common stock under the plan, which deductions were limited to 7 1/2% of the officer's base salary, overtime pay and bonuses. The Employee Stock Investment Plan was designed to encourage our senior executives and other employees to invest in our common stock and to further align the executives' interests with those of our stockholders. Our Board of Directors suspended the Employee Stock Investment Plan in October 2008.

Contributions under our 401(k) salary deferral plan and under the Employee Stock Investment Plan during fiscal 2008 are reported in the Summary Compensation Table.

We also maintain our Pilgrim's Pride Corporation 2005 Deferred Compensation Plan (the "Deferred Compensation Plan") to help provide for the long-term financial security of our U.S. employees who meet the Internal Revenue Service definition of a "highly compensated employee," which include all of our named executive officers and certain other key personnel. Under the Deferred Compensation Plan, participants may elect to defer up to 80% of their base salary and/or up to 100% of their annual cash bonus payments as part of their personal retirement or financial planning. Executive officers who elect to defer compensation in the Deferred Compensation Plan must do so annually prior to the beginning of each calendar year and may direct the investment of the amount deferred and retained by us. The Deferred Compensation Plan is administered by the administrative committee appointed by our Board of Directors, and deferred compensation may be invested in authorized funds which are similar to the investment options available under our 401(k) salary deferral plan. Additional information regarding deferred compensation is reported below in the Nonqualified Deferred Compensation Table.

We also provide a variety of health and welfare programs to all eligible employees to offer employees and their families protection against catastrophic loss and to encourage healthy lifestyles. The health and welfare programs we offer include medical, wellness, pharmacy, dental, vision, life insurance and accidental death and disability. Our executive officers and management generally are eligible for the same benefit programs on the same basis as our other domestic employees.

## Perquisites and Other Personal Benefits

We provide our named executive officers with perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain competent executives for key positions. The compensation committee periodically reviews the levels of perquisites and other personal benefits that we provide to our named executive officers. Our executive officers receive perquisites involving items such as personal use of corporate aircraft and automobiles, and they are also eligible to receive company-paid or company-subsidized life insurance and disability coverage on the same basis as our other domestic payroll employees. Information regarding perquisites is reported below in the Summary

Compensation Table. Additionally, as described under “Compensation Committee Interlocks and Insider Participation” and “Certain Transactions”, certain of our executive officers have childretransactions with the Company in establishing the compensation of the executive officers, the Compensation Committee takes all prerequisites and other personal benefits into account.

#### Tax Considerations

Section 162(m) of the Code imposes limitations on the deductibility for federal income tax purposes of compensation over \$1,000,000 paid to each of our five most highly paid executive officers in a taxable year. Compensation above \$1,000,000 may only be deducted if it is “performance–based compensation” within the meaning of the Code. Amounts payable under the Bonus Plan are intended to be performance–based compensation meeting these requirements and, as such, be fully deductible. However, the Company has not adopted a policy requiring all compensation to be deductible. For fiscal 2008, certain amounts paid did not qualify as performance–based compensation and were not deductible.

#### Named Executive Officer Compensation Developments Occurring After the End of Fiscal 2008

#### Change in Control Agreements

On October 21, 2008, we entered into Change in Control Agreements with each of Lonnie Ken Pilgrim, Chairman, and Richard A. Cogdill, Chief Financial Officer, each of whom is sometimes referred to in this discussion as an Executive. On the same date, we entered into similar agreements with J. Clinton Rivers, our former President and Chief Executive Officer, and Robert A. Wright, our former Chief Operating Officer, but those agreements were terminated in connection with the resignations of those former executives from the Company on December 16, 2008. Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts, including these Change in Control Agreements. We are currently in the process of evaluating our executory contracts in order to determine which contracts will be assumed in our Chapter 11 proceedings, but we expect to assume the Change in Control Agreements, subject to the approval of the Bankruptcy Court.

The Change in Control Agreements have an initial term of three years. The term of the agreements automatically renew on their anniversary for a period of two years from the renewal date, unless, in each case, the Company gives the Executive notice at least 60 days prior to the renewal date that the term will not be extended.

Generally, the Change in Control Agreements provide that, if we terminate an Executive's employment within a specified time period (the “Employment Period”) following a Change in Control (as defined in the Change in Control Agreement) other than for cause or the Executive's disability, or if the Executive resigns during the Employment Period for good reason because the Company has not met its obligations under the Change in Control Agreement, then the Executive will be entitled to certain severance benefits. The Employment Period is 24 months in the case of Mr. Pilgrim and 18 months in the case of Mr. Cogdill.

Upon the termination of an Executive's employment during the Employment Period under the circumstances discussed above, the Change in Control Agreements provide

- for a lump sum severance payment that includes
  - o the Executive's target annual bonus for the fiscal year in which the termination occurs, prorated through the date of termination, and

o an amount based on the sum of the Executive's annual base salary and target annual bonus multiplied by 3.0 in the case of Mr. Pilgrim and 2.5 in the case of Mr. Cogdill;

- that the Executives may be entitled to receive a tax gross-up payment to compensate them for specified excise taxes, if any, imposed on the severance payment; and
- that any stock options and other equity awards held by the Executives will become fully vested and exercisable.

In addition, the Change in Control Agreements provide that, for a period of 24 months in the case of Mr. Pilgrim and 18 months in the case of Mr. Cogdill, from the date of any termination of the Executive's employment that results in a severance payment under the Executive's Change in Control Agreement, the Executive will not (a) divulge confidential information regarding the Company, (b) solicit or induce employees of the Company to terminate their employment with the Company, or (c) seek or obtain any employment or consulting relationship with any specified competitor of the Company.



EXECUTIVE COMPENSATION

The table below summarizes compensation paid to or earned by each of the named executive officers in fiscal 2008. See “Compensation Committee Interlocks and Insider Participation” and “Certain Transactions” below for a discussion of transactions between us and our Directors and executive officers and certain of their children.

2008 SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary (\$ (1))	Bonus (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$ (2))	Total (\$)
Lonnie “Bo” Pilgrim Senior Chairman of the Board	2008	1,498,398	–0–	–0–	–0–	570,399	2,068,797
	2007	1,415,899	390,118	484,052	–0–	926,474	3,216,543
Lonnie Ken Pilgrim Chairman of the Board	2008	496,326	–0–	–0–	278	47,473	544,077
	2007	308,827	85,090	105,578	473	88,919	588,887
J. Clinton Rivers(3) Former President and Chief Executive Officer	2008	907,491	–0–	–0–	(135,857)	26,505	798,139
	2007	669,125	184,362	228,753	78,569	4,842	1,165,651
Richard A. Cogdill Chief Financial Officer, Secretary and Treasurer	2008	797,491	–0–	–0–	(156,358)	35,763	676,896
	2007	669,125	184,362	228,753	100,130	18,687	1,201,057
Robert A. Wright(4) Former Chief Operating Officer	2008	547,776	–0–	–0–	(342,967)	25,050	229,859
Clifford E. Butler(5) Former Vice Chairman of the Board	2008	137,183	–0–	–0–	391	5,692	143,266
	2007	434,725	49,779	148,619	917	17,388	721,428
O.B. Goolsby, Jr. (6) Former President and Chief Executive Officer (Deceased)	2008	309,144	–0–	–0–	(1,345)	23,233	331,032
	2007	875,010	241,088	299,139	123,186	48,508	1,586,931

(1) The amounts disclosed in the “Salary” column include amounts deferred under the Deferred Compensation Plan as disclosed in the Nonqualified Deferred Compensation Table.

- 2) The "All Other Compensation" column includes the following items of compensation:
- a. Personal use of corporate aircraft by the named individual: Lonnie "Bo" Pilgrim, \$84,899, Lonnie Ken Pilgrim, \$43,475 and Clifford E. Butler \$1,394. During fiscal 2008, we owned and operated airplanes to facilitate business travel of certain of our employees in as safe a manner as possible with the best use of their time. Certain of the named executive officers use the corporate aircraft for business travel and on a limited basis for personal travel. The value of personal aircraft usage reported above is based on the direct operating cost to us. The methodology calculates our incremental cost based on the average weighted cost of fuel, aircraft maintenance, landing fees, trip-related hangar and parking costs, and smaller variable costs. Since the corporate aircraft is used primarily for business travel, the methodology excludes fixed costs, which do not change based on usage, such as pilots' and other employees' salaries, purchase cost of the aircraft and non-trip related hangar expenses. On certain occasions, an employee's spouse or other family member may accompany the employee on a flight. No additional direct operating cost is incurred in such situations under the foregoing methodology.
  - b. Our contributions to the named individual under our Employee Stock Investment Plan in the following amounts: Lonnie "Bo" Pilgrim, \$0; Lonnie Ken Pilgrim, \$0; J. Clinton Rivers, \$19,144; Richard A. Cogdill, \$30,253; Robert A. Wright, \$20,226; Clifford E. Butler, \$2,300 and O.B. Goolsby, Jr., \$21,128.
  - c. Our contributions to the named individual under our 401(k) Salary Deferral Plan in the following amounts: Lonnie "Bo" Pilgrim, \$0; Lonnie Ken Pilgrim, \$2,623; J. Clinton Rivers, \$3,926; Richard A. Cogdill, \$3,410; Robert A. Wright, \$2,782; Clifford E. Butler, \$130 and O.B. Goolsby, Jr., \$91.
  - d. Section 79 income to the named individual due to group term life insurance in the following amounts: Lonnie "Bo" Pilgrim, \$4,865; Lonnie Ken Pilgrim, \$1,035; J. Clinton Rivers, \$2,254; Richard A. Cogdill, \$1,209; Robert A. Wright, \$1,194; Clifford E. Butler, \$1,612 and O.B. Goolsby, Jr., \$1,546.
  - e. The Company reimburses employees for a portion of their long term disability premium cost. The named individual reimbursements for a portion their long term disability premium cost in the following amounts: Lonnie "Bo" Pilgrim, \$850; Lonnie Ken Pilgrim, \$69; J. Clinton Rivers, \$1,182; Richard A. Cogdill, \$890; Robert A. Wright, \$847; Clifford E. Butler, \$255 and O.B. Goolsby, Jr., \$469.
  - f. Certain members of the family of Lonnie "Bo" Pilgrim are employed by us, including: his son, Pat Pilgrim, and his daughter, Greta Pilgrim-Owens, who received total compensation for fiscal 2008 of \$220,281 and \$227,669, respectively.
- (3) Mr. Rivers was appointed President and Chief Executive Officer on March 4, 2008. In connection with our reorganization process, Mr. Rivers resigned from the Company on December 16, 2008.
- (4) Mr. Wright was appointed Chief Operating Officer on March 26, 2008. in connection with our reorganization process, Mr. Rivers resigned from the Company on December 16, 2008.
- (5) Mr. Butler retired from his position as Vice Chairman on December 31, 2007. Pursuant to a Retirement and Consulting Agreement, dated October 10, 2007, between Mr. Butler and the Company, Mr. Butler will continue to provide consulting services to the Company through December 31, 2010.
- (6) Mr. Goolsby passed away on December 17, 2007.

## Employee Stock Investment Plan

The Company has historically maintained an Employee Stock Investment (the "Investment Plan") to encourage our employees to invest in our common stock and to align our employees' interests with those of our stockholders. Our Board of Directors suspended the Employee Stock Investment Plan in October 2008.

The purpose of the Investment Plan was to provide our employees with a convenient method of investing in shares of our common stock through payroll deductions supplemented by our contributions. Any employee who had completed six months of continuous service with us was eligible to participate in the Investment Plan. For each participant in the Investment Plan, we made a matching contribution in an amount equal to 33 1/3% of the participant's payroll deductions that were invested in the Investment Plan, provided that we had sufficient current or accumulated net income to permit us to make such contributions under applicable law.

All contributions in the Investment Plan were invested by an investment banker and/or broker or successor administrator engaged by the Company. The Investment Plan is scheduled to continue until the earlier of December 18, 2013, or until terminated by our Board of Directors. Our contributions to the Investment Plan for each named executive officer are disclosed in the "All Other Compensation" column of the Summary Compensation Table. Each such officer's contributions to the Investment Plan are included in the "Salary" column of the Summary Compensation Table.

## Senior Executive Performance Bonus Plan

No bonuses were paid for fiscal 2008. According to its terms, the Bonus Plan awards annual cash bonuses to executive officers and other management personnel based on Company performance and profitability in the fiscal year with respect to which the bonus is awarded generally equal to (i) the sum of the amount of the Bonus Plan participant's base salary accrued with respect to the period commencing on the first day of such fiscal year and ending on the last day of such fiscal year divided by (ii) the sum of the amounts calculated in accordance with clause (i) immediately above for all of the participants multiplied by (iii) 5% of our pre-tax income from U.S. operations, excluding extraordinary charges, for the fiscal year with respect to which the bonus is being calculated (the "Bonus Pool Amount").

Notwithstanding the foregoing, (i) our Compensation Committee retains the right, in its sole discretion, to reduce, increase or eliminate, prior to the payment thereof, the amount of any bonus that would otherwise be due to a non-Section 162(m) participant and (ii) a special subcommittee of the Compensation Committee retains the right, in its sole discretion, to reduce or eliminate (but not increase), prior to the payment thereof, the amount of any bonus that would otherwise be due to a Section 162(m) participant, but under no circumstances may any such reduction or elimination under clause (i) or (ii) increase the bonus otherwise payable to a Section 162(m) participant or cause the aggregate amount of such bonuses to exceed the Bonus Pool Amount for any fiscal year.

If the Bonus Plan is assumed by the Company with the approval of the Bankruptcy Court, the persons eligible to participate in the Bonus Plan will include the Senior Chairman, Chairman, President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and such other officers of the Company as may be specified by the independent subcommittee of the Compensation Committee. Participants must generally continue to be employed by Pilgrim's Pride or one of our subsidiaries on January 1 following the end of a fiscal year in order to be paid a bonus with respect to that year. Each bonus awarded to a participant under the Bonus Plan is payable no later than the end of the first quarter of the succeeding fiscal year upon certification from the Compensation Subcommittee that we achieved the amount of pre-tax income from U.S. operations, excluding extraordinary charges, used to calculate the Bonus Pool Amount and that the determination of the amount of bonus to be paid to each Participant is correct.

2008 NONQUALIFIED DEFERRED COMPENSATION TABLE

Our executive officers participate in the Deferred Compensation Plan and may elect to defer up to 80% of their base salary and/or up to 100% of their annual cash bonus. Executive officers who elect to defer compensation must do so annually prior to the beginning of each calendar year and may direct the investment of the amount deferred and retained by us. The Deferred Compensation Plan is administered by the administrative committee appointed by our Board of Directors. Deferred compensation may be invested in authorized funds as selected by the oversight committee appointed by the Board to oversee the Deferred Compensation Plan. The following table sets forth information regarding the activity in each named executive officer's Deferred Compensation Plan account for the year ended September 27, 2008:

Name	Executive Contributions in Last Fiscal Year (\$ (1))	Registrant Contributions in Last Fiscal Year (\$)	Aggregate Earnings in Last Fiscal Year (\$ (2))	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year-End (\$)
Lonnie "Bo" Pilgrim Senior Chairman of the Board	-0-	-0-	-0-	-0-	-0-
Lonnie Ken Pilgrim Chairman of the Board	-0-	-0-	278	-0-	11,156
J. Clinton Rivers President and Chief Executive Officer	246,171	-0-	(135,857)	-0-	592,989
Richard A. Cogdill Chief Financial Officer, Secretary and Treasurer	144,898	-0-	(156,358)	79,416	584,277
Robert A. Wright Chief Operating Officer	14,611	-0-	(342,967)	505,692	763,597
Clifford E. Butler Former Vice Chairman of the Board	-0-	-0-	391	21,758	-0-
O.B. Goolsby, Jr. Former President and Chief Executive Officer (Deceased)	36,589	-0-	(1,345)	700,565	-0-

(1) The amounts disclosed in this column are included in the amounts reported in the "Salary" column for each of the named executive officers in the Summary Compensation Table.

(2) The amounts disclosed in this column represent earnings on invested funds in each individual Deferred Compensation Plan account.

2008 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Charles L. Black	70,000	-0-	-0-	70,000
Linda Chavez	122,000	-0-	-0-	122,000
S. Key Coker	76,000	-0-	-0-	76,000
Keith W. Hughes	128,000	-0-	-0-	128,000
Blake D. Lovette	76,000	-0-	132,350 <sup>(1)</sup>	208,350
Vance C. Miller	128,000	-0-	-0-	128,000
James G. Vetter	68,000	-0-	-0-	68,000
Donald L. Wass	70,000	-0-	-0-	70,000

(1) This amount represents compensation paid by the Company to Blake Lovette's son-in-law, Ted Lankford, our Complex Manager at Athens, AL, who was paid total compensation of \$132,350 in fiscal year 2008.

We pay our non-employee Directors \$9,000 per meeting they attend in person, plus expenses, and \$4,000 and \$2,000 per telephonic meeting that they participate in that lasts at least 45 minutes or less than 45 minutes, respectively. Additionally, we pay the members of the Audit Committee \$6,000 for each Audit Committee meeting they attend in person, plus expenses, and \$4,000 and \$2,000 per telephonic Audit Committee meeting that they participate in that lasts at least 45 minutes or less than 45 minutes, respectively.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP

The following table sets forth, as of January 20, 2009 (except as otherwise noted), certain information with respect to the beneficial ownership of our common stock by (i) each person known by us to own more than 5% of the outstanding shares of our common stock (the only class of voting securities outstanding); (ii) each of our Directors and nominees for Director, including employee Directors; (iii) our named executive officers; and (iv) all of our current Directors and executive officers as a group. Shares are beneficially owned when the person holding the shares has voting or investment power over the shares or the right to acquire voting or investment power within 60 days. Voting power is the power to vote the shares. Investment power is the power to direct the sale or other disposition of the shares.

Name of Beneficial Owner	Amount and Nature Of Beneficial Ownership of Common Stock	Percent of Outstanding Common Stock	Percent of Voting Power
Pilgrim Interests, Ltd.(a)  4845 U.S. Highway 271 N. Pittsburg, Texas 75686	22,118,077	29.9%	62.3%
Lonnie "Bo" Pilgrim(a)(b)(c)(d)  4845 U.S. Highway 271 N. Pittsburg, Texas 75686	25,351,225	34.2%	62.3%
Lonnie Ken Pilgrim(a)(b)(c)(d)  4845 U.S. Highway 271 N. Pittsburg, Texas 75686	22,878,898	30.9%	62.3%
M&G Investment Management Limited (e)  Governor's House Laurence Pountney Hill London, EC4R OHH–United Kingdom	7,513,690	10.15%	1.32%
Eastbourne Capital Management, L.L.C. (f)  1101 Fifth Avenue, Suite 370 San Rafael, California 94901	4,593,207	6.20%	*
Richard A. Cogdill(c)	48,241	*	*
J. Clinton Rivers(c)	21,195	*	*
Robert A. Wright(c)	16,136	*	*
Charles L. Black	500	*	*
Linda Chavez	—	—	—
S. Key Coker	—	—	—
Keith W. Hughes	1,000	*	*
Blake D. Lovette	—	—	—
Vance C. Miller, Sr.	2,000	*	*
James G. Vetter, Jr.	3,425	*	*
Donald L. Wass, Ph.D	450	*	*
All executive officers and Directors as a group (14 persons)(a)	26,023,805	35.1%	62.3%

- (a) Pilgrim Interests, Ltd., Lonnie “Bo” Pilgrim and Lonnie Ken Pilgrim own or control 22,118,077 (29.9%), 25,351,225 (34.2%) and 22,878,898 (30.9%) shares of our common stock, which represents 77.98%, 89.22% and 80.59%, respectively, of the voting power of our common stock. However, pursuant to a Voting Agreement, dated as of November 18, 2003, by and between Pilgrim Interests, Ltd., Pilgrim Family Trust I, Pilgrim Family Trust II, PFCP, Ltd., Lonnie Jagers Pilgrim Minority Trust, Greta Gail Pilgrim Minority Trust, Lonnie A. Pilgrim, Patricia R. Pilgrim, Lonnie K. Pilgrim and Donna G. Pilgrim and the Company, whenever these stockholders directly or indirectly own or control (of record or beneficially) shares of our common stock that would provide for more than 62.25% of the Company’s Total Voting Power they will vote their shares in excess of that percentage of the Total Voting Power in the same proportion as the votes cast by all other holders of our common stock. Total Voting Power means the total number of votes that may be cast in the election of Directors in respect of our common stock at any meeting of stockholders if all common stock of the Company entitled to vote thereat was represented and voted to the fullest extent possible at such meeting.
- (b) Includes 22,118,077 shares of common stock held of record by Pilgrim Interests, Ltd., a limited partnership formed by Lonnie “Bo” Pilgrim’s family, 68,013 shares of common stock held of record by PFCP, Ltd., another limited partnership formed by Lonnie “Bo” Pilgrim’s family, 90,580 shares of common stock held of record by Pilgrim Family Trust I, an irrevocable trust for the benefit of Lonnie “Bo” Pilgrim’s surviving spouse and children, of which Lonnie Ken Pilgrim, an officer and Director of the Company and the son of Lonnie “Bo” Pilgrim, and Patricia R. Pilgrim, Lonnie “Bo” Pilgrim’s wife, are co-trustees, and 90,579 shares of common stock held of record by Pilgrim Family Trust II, an irrevocable trust for the benefit of Lonnie “Bo” Pilgrim and his children, of which Lonnie “Bo” Pilgrim and Lonnie Ken Pilgrim are co-trustees. Pilgrim Interests, Ltd. is a limited partnership formed by Mr. Pilgrim’s family of which the managing general partner is the Lonnie A. Pilgrim 1998 Revocable Trust and the other general partner is Lonnie Ken Pilgrim and the limited partners are Lonnie “Bo” Pilgrim, The Lonnie A. “Bo” Pilgrim Endowment Fund, The Lonnie Ken Pilgrim Issue Trust, The Greta Pilgrim Owens Issue Trust and The Pat Pilgrim Issue Trust. PFCP, Ltd. is a limited partnership formed by Mr. Pilgrim’s family of which the managing general partner is the Lonnie A. Pilgrim 1998 Revocable Trust and the other general partner is Lonnie Ken Pilgrim, the class A limited partners are Lonnie “Bo” Pilgrim and Patricia R. Pilgrim and the class B limited partners are Lonnie “Bo” Pilgrim, Patricia R. Pilgrim and Lonnie Ken Pilgrim. The agreement establishing the Lonnie A. Pilgrim 1998 Revocable Trust provides that Lonnie “Bo” Pilgrim is the sole trustee during his life and, after his death, the trustee shall be a board of trustees currently comprised of Patricia R. Pilgrim and Lonnie Ken Pilgrim and S. Key Coker, Charles Black and Donald Wass, except for Patricia R. Pilgrim, all of which are Directors of the Company. The agreement establishing the Lonnie A. Pilgrim 1998 Revocable Trust provides that Lonnie “Bo” Pilgrim as the sole trustee shall have sole voting and dispositive power over the shares of common stock and, after his death, most voting matters require a majority vote of the board of trustees except the direct or indirect sale of the shares of common stock requires a unanimous vote of the board of trustees. Additionally, Pilgrim Interests, Ltd. and PFCP, Ltd. have entered into a Voting Agreement, which may be terminated at any time by the unanimous action of Lonnie “Bo” Pilgrim, acting in his individual capacity and as trustee of the Lonnie A. Pilgrim 1998 Revocable Trust (acting as managing general partner of Pilgrim Interests, Ltd. and PFCP, Ltd.), Patricia R. Pilgrim and Lonnie Ken Pilgrim which provides that Lonnie Ken Pilgrim, Greta Pilgrim Owens, the daughter of Lonnie “Bo” Pilgrim, S. Key Coker, Charles L. Black and Donald L. Wass (the “Voting Representatives”) shall have the sole power to vote the shares of common stock owned by Pilgrim Interests, Ltd. and PFCP, Ltd. All voting decisions require a majority of the Voting Representatives except that (i) the sale of substantially all of the assets of the Company, (ii) the sale or liquidation of the Company, or (iii) the merger of the Company requires a unanimous vote of the Voting Representatives. All other decisions regarding common stock held by Pilgrim Interests, Ltd. and PFCP, Ltd. will be made by the Lonnie A. Pilgrim 1998 Revocable Trust. Each of Lonnie “Bo” Pilgrim and Lonnie Ken Pilgrim disclaim beneficial ownership of our common stock held, except to the extent of their actual pecuniary interest therein.
- (c) Includes shares held in trust by our 401(k) Salary Deferral Plan. The security ownership information for Mr. Rivers and Mr. Wright is as of December 16, 2008, the date they resigned their positions as officers of the Company.
- (d) Includes 13,697 shares of common stock held by his wife. Also includes 53,510 shares of common stock held in two irrevocable trusts dated December 15, 1994 and October 31, 1989, of which Lonnie Ken Pilgrim is a co-trustee for the benefit of his children. Lonnie Ken Pilgrim disclaims any beneficial interest in the foregoing shares.
- (e) Based on Schedule 13G filed by the named beneficial owner on October 20, 2008.
- (f) Based on Schedule 13G filed by the named beneficial owner on February 12, 2008.

\* Less than 1%.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Related Party Transactions Policy

In accordance with our Audit Committee Charter, our Audit Committee or another independent body of the Board is responsible for reviewing and approving the terms and conditions of all proposed transactions between us and any of our officers or Directors, or relatives or affiliates of any such officers or Directors. Any Audit Committee or other independent body member who is not independent with respect to a related party transaction under review must disclose his or her lack of independence to the remaining committee members and abstain from the review and approval of that transaction. See “Compensation Committee Interlocks and Insider Participation” and “Certain Transactions” for the description of the related party transactions in effect during the fiscal year ended September 27, 2008.

### Certain Transactions

We have been and continue to be a party to certain transactions with Lonnie “Bo” Pilgrim, our Senior Chairman, Lonnie Ken Pilgrim, our Chairman, Clifford E. Butler, our former Vice Chairman, who continues to serve as a consultant to the Company, a law firm affiliated with James G. Vetter, Jr., one of our Directors, and Blake D. Lovette, one of our Directors. These transactions, along with all other transactions between us and affiliated persons, require the prior approval of the Audit Committee or another independent body of the Board, and the Audit Committee has approved each of these transactions. See “Compensation Committee Interlocks and Insider Participation,” which is incorporated herein by reference, for a discussion of our transactions with Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, James G. Vetter, Jr. and Blake D. Lovette.

We have entered into chicken grower contracts involving farms owned by certain of our officers, providing the placement of flocks owned by us on their farms during the grow-out phase of production. These contracts are on terms substantially the same as contracts we enter into with unaffiliated parties and can be terminated by either party upon completion of the grow-out of each flock. In fiscal 2008, we paid Clifford E. Butler \$341,795 under such a grower contact.

We also employ Clifford E. Butler’s son, Shane Butler, our Senior Vice President Prepared Foods Regional Operations, who was paid total compensation of \$240,967 in fiscal 2008. In addition, we employ O.B. Goolsby’s daughter, Melissa Goolsby-Cooney, Sales Field Representative, who was paid total compensation of \$53,766 in fiscal 2008, and son-in-law Scott Cooney, Director HACCP/Regulatory Compliance, who was paid total compensation of \$86,606 in fiscal 2008, and purchased landscape services from Mr. Goolsby’s son, Greg Goolsby, who was paid a total amount of \$6,615 in fiscal 2008.

### Board of Directors Independence

Our Board of Directors has affirmatively determined that each of the current Directors, except for Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim and Richard A. Cogdill, has no material relationship with our Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and is independent within the meaning of our Corporate Governance Policy’s categorical independence standards and the NYSE listing standards.



## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Independent Registered Public Accounting Firm Fee Information

#### Audit Fees

Fees for audit services totaled approximately \$2,550,119 in fiscal 2008 and approximately \$2,578,888 in fiscal 2007, including fees associated with the annual audit, the audit of internal controls over financial reporting (i.e., the Sec. 404 Audit), the reviews of our quarterly reports on Form 10-Q, statutory audits required in Mexico and assistance with registration statements and accounting consultations.

#### Audit-Related Fees

Fees for audit-related services totaled approximately \$515,862 in fiscal 2008 and \$309,943 in fiscal 2007. Audit-related services principally include transaction assistance, Sarbanes-Oxley 404 assistance and employee benefit plan audits.

#### Tax Fees

Fees for tax services, including tax compliance, tax advice and tax planning, totaled approximately \$320,924 in fiscal 2008 and \$150,292 in fiscal 2007.

#### All Other Fees

Fees for all other services not included above totaled approximately \$0 in fiscal 2008 and \$5,000 in fiscal 2007, principally for a subscription to an online research database.

The Audit Committee has pre-approved all audit and non-audit fees of the independent registered public accounting firm during fiscal 2008 and 2007.

#### Pre-Approval Policies and Procedures

In accordance with the Audit Committee Charter, our Audit Committee has established policies and procedures by which it approves in advance any audit and permissible non-audit services to be provided by our independent registered public accounting firm. Under these procedures, prior to the engagement of the independent registered public accounting firm for pre-approved services, requests or applications for the auditors to provide services must be submitted to our Chief Financial Officer or his designee and the Audit Committee and must include a detailed description of the services to be rendered. The Chief Financial Officer or his designee and the independent registered public accounting firm must ensure that the independent registered public accounting firm is not engaged to perform the proposed services unless those services are within the list of services that have received the Audit Committee's pre-approval and must cause the Audit Committee to be informed in a timely manner of all services rendered by the independent registered public accounting firm and the related fees.

Requests or applications for the independent registered public accounting firm to provide services that require additions or revisions to the fiscal 2009 pre-approval will be submitted to the Audit Committee (or any Audit Committee members who have been delegated pre-approval authority) by the Chief Financial Officer or his designee. Each request or application must include:

- a recommendation by the Chief Financial Officer (or designee) as to whether the Audit Committee should approve the request or application; and

- a joint statement of the Chief Financial Officer (or designee) and the independent registered public accounting firm as to whether, in their view, the request or application is consistent with the SEC's regulations and the requirements for auditor independence of the Public Company Accounting Oversight Board.

The Audit Committee also will not permit the engagement to provide any services to the extent that the SEC has prohibited the provision of those services by independent registered public accounting firms.

The Audit Committee delegated authority to the Chairman of the Audit Committee to:

- pre-approve any services proposed to be provided by the independent registered public accounting firm and not already pre-approved or prohibited by this policy;
- increase any authorized fee limit for pre-approved services (but not by more than 30% of the initial amount that was pre-approved) before we or our subsidiaries engage the auditors to perform services for any amount in excess of the fee limit; and
- investigate further the scope, necessity or advisability of any services as to which pre-approval is sought.

The Chairman of the Audit Committee is required to report any pre-approval or fee increase decisions to the Audit Committee at the next committee meeting. The Audit Committee did not delegate to management any of the Audit Committee's authority or responsibilities concerning the services of the independent registered public accounting firm.

#### PART IV

##### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. and 2. No financial statements or schedules are filed with this report on Form 10-K/A.

3. Exhibits

- 2.1 Agreement and Plan of Reorganization dated September 15, 1986, by and among Pilgrim's Pride Corporation, a Texas corporation; Pilgrim's Pride Corporation, a Delaware corporation; and Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston, Evanne Pilgrim, Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Greta Pilgrim Owens and Patrick Wayne Pilgrim (incorporated by reference from Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 2.2 Agreement and Plan of Merger dated September 27, 2000 (incorporated by reference from Exhibit 2 of WLR Foods, Inc.'s Current Report on Form 8-K (No. 000-17060) dated September 28, 2000).
- 2.3 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).

- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended October 2, 2004).
- 3.2 Amended and Restated Bylaws of Pilgrim's Pride Corporation (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
- 4.1 Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1).
- 4.2 Amended and Restated Corporate Bylaws of the Company (included as Exhibit 3.2).
- 4.3 Indenture, dated November 21, 2003, between Pilgrim's Pride Corporation and The Bank of New York as Trustee relating to Pilgrim's Pride's 9 1/4% Senior Notes due 2013 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.4 Form of 9 1/4% Note due 2013 (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.5 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.7 Form of 7 5/8% Senior Note due 2015 (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.8 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.9 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.10 Form of 8 3/8% Subordinated Note due 2017 (incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Pilgrim's Industries, Inc. Profit Sharing Retirement Plan, restated as of July 1, 1987 (incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed on July 1, 1992). ⑤
- 10.2 Senior Executive Performance Bonus Plan of the Company (incorporated by reference from Exhibit A in the Company's Proxy Statement dated December 13, 1999). ⑤
- 10.3 Aircraft Lease Extension Agreement between B.P. Leasing Co. (L.A. Pilgrim, individually) and Pilgrim's Pride Corporation (formerly Pilgrim's Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.4 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).

- 10.5 Commercial Egg Grower Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.6 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q for the three months ended January 2, 1999).
- 10.7 Heavy Breeder Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farms 44, 45 & 46) (incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.8 Broiler Grower Contract dated January 9, 1997 by and between Pilgrim's Pride and O.B. Goolsby, Jr. (incorporated by reference from Exhibit 10.25 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.9 Broiler Grower Contract dated January 15, 1997 by and between Pilgrim's Pride Corporation and B.J.M. Farms (incorporated by reference from Exhibit 10.26 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.10 Broiler Grower Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler (incorporated by reference from Exhibit 10.27 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.11 Purchase and Contribution Agreement dated as of June 26, 1998 between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.34 of the Company's Quarterly Report on Form 10-Q for the three months ended June 27, 1998).
- 10.12 Guaranty Fee Agreement between Pilgrim's Pride Corporation and Pilgrim Interests, Ltd., dated June 11, 1999 (incorporated by reference from Exhibit 10.24 of the Company's Annual Report on Form 10-K for the year ended October 2, 1999).
- 10.13 Commercial Property Lease dated December 29, 2000 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the three months ended December 30, 2000).
- 10.14 Amendment No. 1 dated as of December 31, 2003 to Purchase and Contribution Agreement dated as of June 26, 1998, between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed February 4, 2004).
- 10.15 Employee Stock Investment Plan of the Company (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004). ☉
- 10.16 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 27, 2004). ☉
- 10.17 Vendor Service Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.18 Transportation Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K dated January 6, 2006).

- 10.19 Credit Agreement by and among the Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the "Borrower"), Pilgrim's Pride Corporation, certain Mexico subsidiaries of the Borrower, ING Capital LLC, and the lenders signatory thereto dated as of September 25, 2006 (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.20 2006 Amended and Restated Credit Agreement by and among CoBank, ACB, Agriland, FCS and the Company dated as of September 21, 2006 (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.21 First Amendment to the Pilgrim's Pride Corporation Amended and Restated 2005 Deferred Compensation Plan Trust, dated as of November 29, 2006 (incorporated by reference from Exhibit 10.03 of the Company's Current Report on Form 8-K filed on December 05, 2006). ⑤
- 10.22 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 10.23 First Amendment to Credit Agreement, dated as of December 13, 2006, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on December 19, 2006).
- 10.24 Second Amendment to Credit Agreement, dated as of January 4, 2007, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on January 9, 2007).
- 10.25 Fourth Amended and Restated Secured Credit Agreement, dated as of February 8, 2007, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as agent, SunTrust Bank, as syndication agent, U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents, BMO Capital Market, as lead arranger, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.26 Third Amendment to Credit Agreement, dated as of February 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.02 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.27 First Amendment to Credit Agreement, dated as of March 15, 2007, by and among the Borrower, the Company, the Subsidiary Guarantors, ING Capital LLC, and the Lenders (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated March 20, 2007).
- 10.28 Fourth Amendment to Credit Agreement, dated as of July 3, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed July 31, 2007).

- 10.29 Retirement and Consulting Agreement dated as of October 10, 2007, between the Company and Clifford E. Butler (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 10, 2007). ⑤
- 10.30 Fifth Amendment to Credit Agreement, dated as of August 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.39 of the Company's Annual Report on Form 10-K filed on November 19, 2007).
- 10.31 Sixth Amendment to Credit Agreement, dated as of November 7, 2007, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 13, 2007).
- 10.32 Ground Lease Agreement effective February 1, 2008 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 1, 2008).
- 10.33 Seventh Amendment to Credit Agreement, dated as of March 10, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.34 First Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of March 11, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.35 Eighth Amendment to Credit Agreement, dated as of April 30, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.36 Second Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of April 30, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.37 Change to Company Contribution Amount Under the Amended and Restated 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed July 30, 2008). ⑤
- 10.38 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2008).

- 10.39 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.40 Limited Duration Waiver Agreement dated as of September 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.41 Amended and Restated Receivables Purchase Agreement dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.42 Amendment No. 1 dated as of October 10, 2008 to Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.42 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
- 10.43 Amendment No. 2 to Purchase and Contribution Agreement dated as of September 26, 2008 among Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.44 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.45 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.46 Limited Duration Waiver Agreement dated as of October 26, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 27, 2008).
- 10.47 Form of Change in Control Agreement dated as of October 21, 2008 between the Company and certain of its executive officers (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 27, 2008). ⑤
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- 10.49 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, as borrower, Bank of Montreal, as administrative agent, and certain other bank parties thereto (incorporated by reference from Exhibit 10.49 of the Company's Annual Report on Form 10-K filed on December 11, 2008).

- 10.50 First Amendment to Limited Duration Waiver Agreement dated as of November 25, 2008 by and among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and Fairway Finance Company, LLC (incorporated by reference from Exhibit 10.50 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
- 10.51 Waiver Agreement and Second Amendment to Credit Agreement dated November 30, 2008, by and among the Company and certain non-debtor Mexico subsidiaries of the Company, ING Capital LLC, as agent, and the lenders signatory thereto (incorporated by reference from Exhibit 10.51 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
- 10.52 Post-Petition Credit Agreement dated December 2, 2008 by and among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.52 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
- 10.53 Amended and Restated Post-Petition Credit Agreement dated December 31, 2008, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 6, 2009).
- 12 Ratio of Earnings to Fixed Charges for the years ended September 27, 2008, September 29, 2007, September 30, 2006, October 1, 2005, October 2, 2004, and September 27, 2003 (filed as Exhibit 12 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
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- 32.2 Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\*Filed herewith

©Represents a management contract or compensation plan arrangement



SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 26, 2009.

PILGRIM'S PRIDE CORPORATION

By: /s/ Richard A. Cogdill

Richard A. Cogdill  
Chief Financial Officer, Secretary and Treasurer  
(Principal Financial and Accounting Officer)

## Exhibit Index

- 2.1 Agreement and Plan of Reorganization dated September 15, 1986, by and among Pilgrim's Pride Corporation, a Texas corporation; Pilgrim's Pride Corporation, a Delaware corporation; and Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston, Evanne Pilgrim, Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Greta Pilgrim Owens and Patrick Wayne Pilgrim (incorporated by reference from Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 2.2 Agreement and Plan of Merger dated September 27, 2000 (incorporated by reference from Exhibit 2 of WLR Foods, Inc.'s Current Report on Form 8-K (No. 000-17060) dated September 28, 2000).
- 2.3 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended October 2, 2004).
- 3.2 Amended and Restated Bylaws of Pilgrim's Pride Corporation (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
- 4.1 Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1).
- 4.2 Amended and Restated Corporate Bylaws of the Company (included as Exhibit 3.2).
- 4.3 Indenture, dated November 21, 2003, between Pilgrim's Pride Corporation and The Bank of New York as Trustee relating to Pilgrim's Pride's 9 1/4% Senior Notes due 2013 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.4 Form of 9 1/4% Note due 2013 (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-4 (No. 333-111975) filed on January 16, 2004).
- 4.5 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.7 Form of 7 5/8% Senior Note due 2015 (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.8 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.9 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).

- 4.10 Form of 8 3/8% Subordinated Note due 2017 (incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Pilgrim's Industries, Inc. Profit Sharing Retirement Plan, restated as of July 1, 1987 (incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed on July 1, 1992). ⑤
- 10.2 Senior Executive Performance Bonus Plan of the Company (incorporated by reference from Exhibit A in the Company's Proxy Statement dated December 13, 1999). ⑤
- 10.3 Aircraft Lease Extension Agreement between B.P. Leasing Co. (L.A. Pilgrim, individually) and Pilgrim's Pride Corporation (formerly Pilgrim's Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.4 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.5 Commercial Egg Grower Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.6 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q for the three months ended January 2, 1999).
- 10.7 Heavy Breeder Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farms 44, 45 & 46) (incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.8 Broiler Grower Contract dated January 9, 1997 by and between Pilgrim's Pride and O.B. Goolsby, Jr. (incorporated by reference from Exhibit 10.25 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.9 Broiler Grower Contract dated January 15, 1997 by and between Pilgrim's Pride Corporation and B.J.M. Farms (incorporated by reference from Exhibit 10.26 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.10 Broiler Grower Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler (incorporated by reference from Exhibit 10.27 of the Company's Registration Statement on Form S-1 (No. 333-29163) effective June 27, 1997).
- 10.11 Purchase and Contribution Agreement dated as of June 26, 1998 between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.34 of the Company's Quarterly Report on Form 10-Q for the three months ended June 27, 1998).
- 10.12 Guaranty Fee Agreement between Pilgrim's Pride Corporation and Pilgrim Interests, Ltd., dated June 11, 1999 (incorporated by reference from Exhibit 10.24 of the Company's Annual Report on Form 10-K for the year ended October 2, 1999).
- 10.13 Commercial Property Lease dated December 29, 2000 between Pilgrim's Pride Corporation and Pilgrim Poultry G.P. (incorporated by reference from Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the three months ended December 30, 2000).

- 10.14 Amendment No. 1 dated as of December 31, 2003 to Purchase and Contribution Agreement dated as of June 26, 1998, between Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed February 4, 2004).
- 10.15 Employee Stock Investment Plan of the Company (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-8 (No. 333-111929) filed on January 15, 2004). ⑤
- 10.16 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 27, 2004). ⑤
- 10.17 Vendor Service Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.18 Transportation Agreement dated effective December 28, 2005 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.3 of the Company's Current Report on Form 8-K dated January 6, 2006).
- 10.19 Credit Agreement by and among the Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the "Borrower"), Pilgrim's Pride Corporation, certain Mexico subsidiaries of the Borrower, ING Capital LLC, and the lenders signatory thereto dated as of September 25, 2006 (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.20 2006 Amended and Restated Credit Agreement by and among CoBank, ACB, Agriland, FCS and the Company dated as of September 21, 2006 (incorporated by reference from Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 28, 2006).
- 10.21 First Amendment to the Pilgrim's Pride Corporation Amended and Restated 2005 Deferred Compensation Plan Trust, dated as of November 29, 2006 (incorporated by reference from Exhibit 10.03 of the Company's Current Report on Form 8-K filed on December 05, 2006). ⑤
- 10.22 Agreement and Plan of Merger dated as of December 3, 2006, by and among the Company, Protein Acquisition Corporation, a wholly owned subsidiary of the Company, and Gold Kist Inc. (incorporated by reference from Exhibit 99.(D)(1) to Amendment No. 11 to the Company's Tender Offer Statement on Schedule TO filed on December 5, 2006).
- 10.23 First Amendment to Credit Agreement, dated as of December 13, 2006, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on December 19, 2006).
- 10.24 Second Amendment to Credit Agreement, dated as of January 4, 2007, by and among the Company, as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.01 to the Company's Current Report on Form 8-K filed on January 9, 2007).
- 10.25 Fourth Amended and Restated Secured Credit Agreement, dated as of February 8, 2007, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as agent, SunTrust Bank, as syndication agent, U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents, BMO Capital Market, as lead arranger, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated February 12, 2007).

- 10.26 Third Amendment to Credit Agreement, dated as of February 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as a syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.02 of the Company's Current Report on Form 8-K dated February 12, 2007).
- 10.27 First Amendment to Credit Agreement, dated as of March 15, 2007, by and among the Borrower, the Company, the Subsidiary Guarantors, ING Capital LLC, and the Lenders (incorporated by reference from Exhibit 10.01 of the Company's Current Report on Form 8-K dated March 20, 2007).
- 10.28 Fourth Amendment to Credit Agreement, dated as of July 3, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed July 31, 2007).
- 10.29 Retirement and Consulting Agreement dated as of October 10, 2007, between the Company and Clifford E. Butler (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 10, 2007). ☺
- 10.30 Fifth Amendment to Credit Agreement, dated as of August 7, 2007, by and among the Company as borrower, CoBank, ACB, as lead arranger and co-syndication agent, and the sole book runner, and as administrative, documentation and collateral agent, Agriland, FCS, as co-syndication agent, and as syndication party, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.39 of the Company's Annual Report on Form 10-K filed on November 19, 2007).
- 10.31 Sixth Amendment to Credit Agreement, dated as of November 7, 2007, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 13, 2007).
- 10.32 Ground Lease Agreement effective February 1, 2008 between Pilgrim's Pride Corporation and Pat Pilgrim (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K dated February 1, 2008).
- 10.33 Seventh Amendment to Credit Agreement, dated as of March 10, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.34 First Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of March 11, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 20, 2008).
- 10.35 Eighth Amendment to Credit Agreement, dated as of April 30, 2008, by and among the Company as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2008).

- 10.36 Second Amendment to the Fourth Amended and Restated Secured Credit Agreement, dated as of April 30, 2008, by and among the Company, To-Ricos, Ltd., To-Ricos Distribution, Ltd., Bank of Montreal, as administrative agent, and the other lenders signatory thereto (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 5, 2008).
- 10.37 Change to Company Contribution Amount Under the Amended and Restated 2005 Deferred Compensation Plan of the Company (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed July 30, 2008). ⑤
- 10.38 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated September 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2008).
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- 10.41 Amended and Restated Receivables Purchase Agreement dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.42 Amendment No. 1 dated as of October 10, 2008 to Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.42 of the Company's Annual Report on Form 10-K filed on December 11, 2008).
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\*Filed herewith

☉Represents a management contract or compensation plan arrangement



**EXHIBIT D**

**Forms 10-Q**

# PILGRIMS PRIDE CORP

4845 US HWY. 271 N.  
PITTSBURG, TX 75686  
903.434.1402

## 10-Q

PILGRIM'S PRIDE CORPORATION  
Filed on 02/05/2009 - Period: 12/27/2008  
File Number 001-09273



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)



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

For the quarterly period ended December 27, 2008

OR



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

For the transition period from to

Commission File number 1-9273



PILGRIM'S PRIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

4845 US Hwy 271 N, Pittsburg, TX

(Address of principal executive offices)

75-1285071

(I.R.S. Employer  
Identification No.)

75686-0093

(Zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

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

Large Accelerated Filer  Accelerated Filer

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

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

Number of shares outstanding of the issuer's common stock, as of January 27, 2009, was 74,055,733.

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PILGRIM'S PRIDE CORPORATION

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  - Consolidated Statements of Operations  
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  - Consolidated Statements of Cash Flows  
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  - Notes to consolidated financial statements as of December 27, 2008
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures about Market Risk
- Item 4. Controls and Procedures

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- Item 1A. Risk Factors
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- Item 6. Exhibits

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 27, 2008	September 27, 2008
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 32,645	\$ 61,553
Restricted cash and cash equivalents	6,667	—
Investment in available-for-sale securities	7,470	10,439
Trade accounts and other receivables, less allowance for doubtful accounts	355,256	144,156
Inventories	796,039	1,036,163
Income taxes receivable	22,196	21,656
Current deferred income taxes	76,900	54,312
Prepaid expenses and other current assets	54,952	71,552
Assets held for sale	17,400	17,370
Current assets of discontinued business	938	33,519
<b>Total current assets</b>	<b>1,370,463</b>	<b>1,450,720</b>
Investment in available-for-sale securities	57,202	55,854
Other assets	77,103	51,768
Identified intangible assets, net	64,817	67,363
Property, plant and equipment, net	1,645,518	1,673,004
<b>Total assets</b>	<b>\$ 3,215,103</b>	<b>\$ 3,298,709</b>
Liabilities and stockholders' equity:		
Liabilities not subject to compromise:		
Accounts payable	213,040	378,887
Accrued expenses	296,598	448,823
Short-term notes payable	101,192	—
Current maturities of long-term debt	—	1,874,469
Current liabilities of discontinued business	1,852	10,783
<b>Total current liabilities</b>	<b>612,682</b>	<b>2,712,962</b>
Long-term debt, less current maturities	41,520	67,514
Deferred income taxes	98,510	80,755
Other long-term liabilities	85,961	85,737
<b>Total liabilities not subject to compromise</b>	<b>838,673</b>	<b>2,946,968</b>
Liabilities subject to compromise	2,253,391	—
Common stock	740	740
Additional paid-in capital	646,824	646,922
Accumulated deficit	(545,862)	(317,082)
Accumulated other comprehensive income	21,337	21,161
<b>Total stockholders' equity</b>	<b>123,039</b>	<b>351,741</b>
	<b>\$ 3,215,103</b>	<b>\$ 3,298,709</b>

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

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

	Three Months Ended	
	December 27, 2008	December 29, 2007
(In thousands, except shares and per share data)		
Net sales	\$ 1,876,991	\$ 2,047,353
Costs and expenses:		
Cost of sales	1,960,373	1,942,250
Gross profit (loss)	(83,382)	105,103
Selling, general and administrative expense	92,437	104,433
Restructuring charges, net	2,422	—
Total costs and expenses	2,055,232	2,046,683
Operating income (loss)	(178,241)	670
Other expenses (income):		
Interest expense	39,569	29,940
Interest income	(531)	(508)
Miscellaneous, net	(1,451)	(2,863)
Total other expenses (income)	37,587	26,569
Loss from continuing operations before reorganization items and income taxes	(215,828)	(25,899)
Reorganization items	13,250	—
Loss from continuing operations before income taxes	(229,078)	(25,899)
Income tax expense	278	7,267
Loss from continuing operations	(229,356)	(33,166)
Income from operations of discontinued business, net of tax	574	837
Net loss	\$ (228,782)	\$ (32,329)
Net loss per common share—basic and diluted:		
Continuing operations	\$ (3.10)	\$ (0.50)
Discontinued business	0.01	0.01
Net loss	\$ (3.09)	\$ (0.49)
Dividends declared per common share	\$ —	\$ 0.0225
Weighted average shares outstanding	74,055,733	66,555,733
Reconciliation of net loss to comprehensive loss:		
Net loss	\$ (228,782)	\$ (32,329)
Unrealized net gain (loss) on securities and financial instruments	177	(166)
Comprehensive loss	\$ (228,605)	\$ (32,495)

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

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

	Three Months Ended	
	December 27, 2008	December 29, 2007
(In thousands)		
Cash flows from operating activities:		
Net loss	\$ (228,782)	\$ (32,329)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	60,158	55,923
Gain on property disposals	(51)	(121)
Deferred income-tax benefit	—	(8,881)
Changes in operating assets and liabilities:		
Accounts and other receivables	(206,069)	(249)
Inventories	267,675	(65,366)
Prepaid expenses and other current assets	16,615	2,009
Accounts payable and accrued expenses	(7,352)	4,225
Income taxes receivable/payable	(541)	8,667
Other	(14,024)	923
Cash used in operating activities	<u>(112,371)</u>	<u>(35,199)</u>
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(29,028)	(42,684)
Purchases of investment securities	(5,629)	(3,287)
Proceeds from sale or maturity of investment securities	4,591	2,750
Change in restricted cash and cash equivalents	(6,667)	—
Proceeds from property disposals	732	150
Cash used in investing activities	<u>(36,001)</u>	<u>(43,071)</u>
Cash flows from financing activities:		
Proceeds from short-term notes payable	234,717	—
Payments on short-term notes payable	(133,525)	—
Proceeds from long-term debt	828,238	298,000
Payments on long-term debt	(694,563)	(212,272)
Change in outstanding cash management obligations	(115,305)	22,533
Other	(98)	—
Cash dividends paid	—	(1,497)
Cash provided by financing activities	<u>119,464</u>	<u>106,764</u>
Increase (decrease) in cash and cash equivalents	(28,908)	28,494
Cash and cash equivalents, beginning of period	<u>61,553</u>	<u>66,168</u>
Cash and cash equivalents, end of period	<u>\$ 32,645</u>	<u>\$ 94,662</u>

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A—CHAPTER 11 PROCEEDINGS

Chapter 11 Bankruptcy Filings

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

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

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

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

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rate for the quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA"). Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Note G—Trade Accounts and Other Receivables.

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of December 27, 2008, the applicable borrowing base was \$323.6 million and the amount available for borrowings under the DIP Credit Agreement was \$222.4 million. As of February 5, 2009, the applicable borrowing base was \$309.4 million and the amount available for borrowings under the DIP Credit Agreement was \$195.5 million.

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

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

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

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

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

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

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

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

The Debtors have the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of our plan. We will likely file one or more motions to request extensions of these time periods. If the Debtors' exclusivity period lapsed, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

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

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

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

The Company has requested that the Bankruptcy Court impose certain restrictions on trading in shares of the Company's common stock in order to preserve valuable tax attributes. The hearing on the motion is set for February 10, 2009. The Company requested that the trading restrictions apply retroactively to January 17, 2009, the date the motion was filed, to investors beneficially owning at least 4.75% of the outstanding shares of common stock of Pilgrim's Pride Corporation. For these purposes, beneficial ownership of stock will be determined in accordance with special US tax rules that, among other things, apply constructive ownership concepts and treat holders acting together as a single holder. In addition, in the future, the Company may request that the Bankruptcy Court impose certain trading restrictions on certain debt of, and claims against, the Company.

#### Going Concern Matters

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

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. During the first quarter of 2009, the Company reduced headcount by approximately 265 non-production employees. The Company also announced that it would reduce production capacity at a certain production complex in the second quarter of 2009 by eliminating a work shift; the action will result in a headcount reduction of approximately 505 production employees. During 2008, the Company reduced production capacity by closing two production complexes and consolidating operations at a third production complex into its other facilities. These actions resulted in a headcount reduction of approximately 2,300 production employees.

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.

Condensed Combined Financial Information of Debtors

The following unaudited condensed combined financial information is presented for the Debtors as of December 27, 2008 or for the three months then ended (in thousands):

<b>Balance Sheet Information:</b>	
Current assets	\$ 1,443,483
Identified intangible assets	64,817
Investment in subsidiaries	151,987
Property, plant and equipment, net	1,513,916
Other assets	<u>47,730</u>
<b>Total assets</b>	<b>\$ 3,221,933</b>
Current liabilities	\$ 500,902
Long-term liabilities	<u>350,372</u>
Liabilities not subject to compromise	851,274
Liabilities subject to compromise	<u>2,253,391</u>
<b>Total liabilities</b>	<b>3,104,665</b>
Stockholders' equity	<u>117,268</u>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,221,933</b>
<b>Statement of Operations Information:</b>	
Net sales	\$ 1,698,880
Gross profit (loss)	(86,194)
Operating income (loss)	(170,808)
Reorganization items	13,250
Loss from equity affiliates	18,869
Net loss	(228,782)
<b>Statement of Cash Flows Information:</b>	
Cash used in operating activities	\$ (121,006)
Cash used in investing activities	(28,545)
Cash provided by financing activities	119,463

## NOTE B—BASIS OF PRESENTATION

### Consolidated Financial Statements

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

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

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

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



In accordance with GAAP, we have applied American Institute of Certified Public Accountants' Statement of Position ("SOP") 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, in preparing the Consolidated Financial Statements. SOP 90-7 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings are recorded in reorganization items on the accompanying Consolidated Statements of Operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the Consolidated Balance Sheet at December 27, 2008 in liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts. For information on the bankruptcy reorganization process, see Note A—Chapter 11 Proceedings.

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

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

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

#### Investment Quality

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

#### Recent Accounting Pronouncements

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

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

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

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

#### Accounting Pronouncements Issued But Not Yet Adopted

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

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

NOTE C—REORGANIZATION ITEMS

Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code ("SOP 90-7"), issued by the American Institute of Certified Public Accountants requires separate disclosure of reorganization items such as realized gains and losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees directly related to the process of reorganizing the Debtors under Chapter 11. The Debtors' reorganization items for the three months ended December 27, 2008 consist of the following:

	Three Months Ended December 27, 2008
	(In thousands)
DIP Credit Agreement related expenses	\$ 6,875
Professional fees directly related to reorganization (a)	5,690
Other (b)	685
Total reorganization items	<u>\$ 13,250</u>

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

(b) Other expenses are related to fees associated with the termination of the RPA on December 3, 2008.

Net cash paid for reorganization items for the three months ended December 27, 2008 totaled \$7.6 million. This represented payment of DIP Credit Agreement related expenses totaling \$6.9 million and fees associated with the termination of the RPA totaling \$0.7 million.

Reorganization items exclude employee severance and other charges recorded during the quarter; employee severance and other charges relate to normal operations of the business rather than charges resulting from the Chapter 11 reorganization. These charges followed the Company's planned reductions in capacity in reaction to economic conditions explained above.

NOTE D—DISCONTINUED BUSINESS

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

For a period of time, we will continue to generate operating results and cash flows associated with our discontinued turkey business. These activities are transitional in nature. We entered into a short-term co-pack agreement with the acquirer of the discontinued turkey business under which they processed turkeys for sale to our customers through the end of 2008. For the period of time until we have collected funds on the sale of these turkeys, we will continue to report operating results and cash flows associated with our discontinued turkey business, although at a substantially reduced level.

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

No debt was assumed by the acquirer of the discontinued turkey business or required to be repaid as a result of the disposal transaction. We elected to allocate to the discontinued turkey operation other consolidated interest that was not directly attributable to or related to other operations of the Company based on the ratio of net assets to be sold or discontinued to the sum of the total net assets of the Company plus consolidated debt. Interest allocated to the discontinued business totaled \$0.4 million in the quarter ended December 29, 2007. There was no interest allocated to the discontinued business in the quarter ended December 27, 2008.

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

	Three Months Ended	
	December 27, 2008	December 29, 2007
	(In thousands)	
Net sales	\$ 26,514	\$ 45,858
Income from operation of discontinued business before income taxes	\$ 922	\$ 1,344
Income tax expense	(348)	(507)
Income from operation of discontinued business, net of tax	\$ 574	\$ 837

The following assets and liabilities related to our turkey business were segregated and included in the line items Current assets of discontinued business and Current liabilities of discontinued business, as appropriate, in the Consolidated Balance Sheets:

	December 27, 2008	September 27, 2008
	(In thousands)	
Trade accounts and other receivables, less allowance for doubtful accounts	\$ 850	\$ 5,881
Inventories	88	27,638
<b>Current assets of discontinued business</b>	<b>\$ 938</b>	<b>\$ 33,519</b>
Accounts payable	\$ 290	\$ 7,737
Accrued expenses	1,562	3,046
<b>Current liabilities of discontinued business</b>	<b>\$ 1,852</b>	<b>\$ 10,783</b>

NOTE E—RESTRUCTURING ACTIVITIES

During 2009 and 2008, the Company completed the following restructuring activities:

First Quarter 2009

- Reduced its workforce by approximately 265 non-production employees, including the resignations of the former Chief Executive Officer and former Chief Operating Officer, and
- Reduced production at a processing complex in Florida by eliminating a shift.

Fourth Quarter 2008

- Closed a processing complex in Arkansas,
- Idled a processing complex in Louisiana, and
- Closed a distribution center in Texas.

Third Quarter 2008

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

Second Quarter 2008

- Closed a processing complex in North Carolina, and
- Closed six distribution centers in Florida (2), Iowa, Mississippi, Ohio, and Tennessee.

The Company's Board of Directors approved the actions as part of a plan intended to curtail losses amid record-high costs for corn, soybean meal and other feed ingredients and an oversupply of chicken in the US. The actions began in March 2008 and were completed in December 2008. The affected processing complexes and distribution centers employed approximately 2,805 individuals. Virtually all of these production employees, along with the approximately 265 non-production employees mentioned above, were impacted by the restructuring activities.

Results of operations for the first quarter of 2009 included restructuring charges totaling \$3.7 million related to these actions. All of these restructuring charges, with the exception of certain lease commitment costs, have resulted in cash expenditures or will result in cash expenditures within one year. Results of operations for the first quarter of 2009 also included a \$1.3 million adjustment that reduced accrued severance and employee retention costs. This adjustment resulted from a change in the restructuring program.

The following table sets forth restructuring activity that occurred during the first quarter of 2009:

	Three Months Ended December 27, 2008				December 27, 2008
	September 27, 2008	Accruals	Payments (In thousands)	Adjustments	
Lease continuation	\$ 4,466	\$ 372	\$ (330)	\$ —	\$ 4,508
Grower compensation	3,989	—	(362)	—	3,627
Severance and employee retention	2,694	3,647	(4,286)	(1,271)	784
Other restructuring costs	1,662	47	(158)	—	1,551
<b>Total</b>	<b>\$ 12,811</b>	<b>4,066</b>	<b>(5,136)</b>	<b>(1,271)</b>	<b>10,470</b>

Consistent with the Company's previous practice and because management believes these costs are related to ceasing production at these facilities and not directly related to the Company's ongoing production, they are classified as a component of operating income (loss).

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

NOTE F—FAIR VALUE MEASUREMENTS

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

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 Unobservable inputs, such as discounted cash flow models or valuations.

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

As of December 27, 2008, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, short-term investments in available-for-sale securities and long-term investments in available-for-sale securities. Cash equivalents consist of short-term, highly liquid, income-producing investments such as money market funds and other funds that have maturities of 90 days or less. Short-term investments in available-for-sale securities consist of short-term, highly liquid, income-producing investments such as municipal debt securities that have maturities of greater than 90 days but less than one year. Long-term investments in available-for-sale securities consist of income-producing investments such as municipal debt securities, corporate debt securities and equity securities that have maturities of greater than one year.

The following items are measured at fair value on a recurring basis at December 27, 2008:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash equivalents	\$ 25,019	\$ —	\$ 987	\$ 26,006
Short-term investments in available-for-sale securities	7,470	—	—	7,470
Long-term investments in available-for-sale securities	54,777	—	2,425	57,202

The following table presents the Company's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 for the quarter ended December 27, 2008:

	Fund of Funds	Auction Rate Securities	Total
	(In thousands)		
Balance at September 27, 2008	\$ 1,197	\$ 2,425	\$ 3,622
Included in other comprehensive income	(210)	—	(210)
Balance at December 27, 2008	<u>\$ 987</u>	<u>\$ 2,425</u>	<u>\$ 3,412</u>

NOTE G—TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	December 27, 2008	September 27, 2008
	(In thousands)	
Trade accounts receivable	\$ 329,743	\$ 135,003
Other receivables	31,055	13,854
Receivables, gross	360,798	148,857
Allowance for doubtful accounts	(5,542)	(4,701)
Receivables, net	<u>\$ 355,256</u>	<u>\$ 144,156</u>

In connection with the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The loss recognized on the sold receivables during the quarter ended December 27, 2008 was not material. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.



NOTE H—INVENTORIES

Inventories consisted of the following components:

	December 27, 2008	September 27, 2008
(In thousands)		
Chicken:		
Live chicken and hens	\$ 308,241	\$ 385,511
Feed and eggs	198,075	265,959
Finished chicken products	<u>270,710</u>	<u>365,123</u>
Total chicken inventories	<u>777,026</u>	<u>1,016,593</u>
Other products:		
Commercial feed, table eggs, retail farm store and other	\$ 16,477	\$ 13,358
Distribution inventories (other than chicken products)	<u>2,536</u>	<u>6,212</u>
Total other products inventories	<u>19,013</u>	<u>19,570</u>
Total inventories	<u>\$ 796,039</u>	<u>\$ 1,036,163</u>

Inventories included a lower-of-cost-or-market allowance of \$34.4 million and \$26.6 million at December 27, 2008 and September 27, 2008, respectively.

NOTE I—IDENTIFIED INTANGIBLE ASSETS

Identified intangible assets, net consisted of the following components:

	Useful Life (Years)	Original Cost	Accumulated Amortization	Carrying Amount
(In thousands)				
December 27, 2008:				
Trade names	3-15	\$ 39,271	\$ (17,708)	\$ 21,563
Customer relationships	13	51,000	(7,846)	43,154
Non-compete agreement	3	300	(200)	100
Total		<u>\$ 90,571</u>	<u>\$ (25,754)</u>	<u>\$ 64,817</u>
September 27, 2008:				
Trade names		\$ 39,271	\$ (16,168)	\$ 23,103
Customer relationships		51,000	(6,865)	44,135
Non-compete agreement		300	(175)	125
Total		<u>\$ 90,571</u>	<u>\$ (23,208)</u>	<u>\$ 67,363</u>

We recognized amortization expense of \$2.5 million and \$2.6 million in the quarters ended December 27, 2008 and December 29, 2007, respectively.

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

NOTE J—PROPERTY, PLANT AND EQUIPMENT

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

	December 27, 2008	September 27, 2008
	(In thousands)	
Land	\$ 111,567	\$ 111,567
Buildings, machinery and equipment	2,494,804	2,465,608
Autos and trucks	62,273	64,272
Construction-in-progress	68,419	74,307
Property, plant and equipment, gross	2,737,063	2,715,754
Accumulated depreciation	(1,091,545)	(1,042,750)
Property, plant and equipment, net	<u>\$ 1,645,518</u>	<u>\$ 1,673,004</u>

We recognized depreciation expense related to our continuing operations of \$56.1 million, and \$51.9 million in the quarters ended December 27, 2008 and December 29, 2007, respectively. We also recognized depreciation charges related to our discontinued turkey business of \$379,000 in the quarter ended December 29, 2007. We did not incur depreciation charges related to our discontinued turkey business in the quarter ended December 27, 2008.

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 generate historical margins as supply and demand between commodities and chicken and other animal-based proteins become more balanced. However, the exact timing of the return to historical margins is not certain, and if the return to historical margins is delayed, impairment charges could become necessary in the future.

The Company classifies certain assets related to its closed production complexes in North Carolina and Arkansas and its closed distribution centers in Florida and Texas as assets held for sale. At both December 27, 2008 and September 27, 2008, the Company reported assets held for sale totaling \$17.4 million on its Consolidated Balance Sheets.

NOTE K—ACCRUED EXPENSES

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

	December 27, 2008	September 27, 2008
	(In thousands)	
Compensation and benefits	\$ 101,849	\$ 118,803
Interest and debt maintenance	15,923	35,488
Self insurance	96,949	170,787
Other	81,877	123,745
Total accrued expenses	<u>\$ 296,598</u>	<u>\$ 448,823</u>

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

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

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

	Maturity	December 27, 2008	September 27, 2008
		(In thousands)	
Short-term notes payable:			
Post-petition credit facility with notes payable at 8.00% plus the greatest of the facility agent's prime rate, the average federal funds rate plus 0.50%, or LIBOR plus 1.00%	2009	\$ 101,192	\$ —
Long-term debt:			
Senior unsecured notes, at 7 5/8%	2015	\$ 400,000	\$ 400,000
Senior subordinated unsecured notes, at 8 3/8%	2017	250,000	250,000
Secured revolving credit facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%	2013	238,765	181,900
Secured revolving credit facility with notes payable at LIBOR plus 1.65% to LIBOR plus 3.125%	2011	41,520	51,613
Secured revolving/term credit facility with four notes payable at LIBOR plus a spread, one note payable at 7.34% and one note payable at 7.56%	2016	1,126,398	1,035,250
Other	Various	33,882	23,220
Long-term debt		2,090,565	1,941,983
Current maturities of long-term debt		—	(1,874,469)
Long-term debt subject to compromise		(2,049,045)	—
Long-term debt, less current maturities		<u>\$ 41,520</u>	<u>\$ 67,514</u>

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the US Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 31, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto.

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rate for the quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Note G—Trade Accounts and Other Receivables.

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels

of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of December 27, 2008, the applicable borrowing base was \$323.6 million and the amount available for borrowings under the DIP Credit Agreement was \$222.4 million. As of February 5, 2009, the applicable borrowing base was \$309.4 million and the amount available for borrowings under the DIP Credit Agreement was \$195.5 million.

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

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

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

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in

the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico subsidiaries are excluded from the US bankruptcy proceedings.

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

In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. The revenue bonds become due in 2029. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds continue to be held by the trustee of the bonds until we draw on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee has the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our

domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We are currently working with the trustee to accomplish the repayment and cancellation of the bonds and have recorded a receivable from the trustee on our Consolidated Balance Sheet at December 27, 2008.

#### NOTE M—LIABILITIES SUBJECT TO COMPROMISE

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

In accordance with SOP 90-7, debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing debt issuance costs to the extent necessary to report the debt at this allowed amount). Through January 29, 2009, the Bankruptcy Court had not classified any of the Debtors' outstanding debt as allowed claims. Therefore, the Company has classified the Debtors' outstanding debt as liabilities subject to compromise on the Consolidated Balance Sheet. The Company has not adjusted debt issuance costs, totaling \$24.4 million at December 27, 2008, related to the Debtors' outstanding debt. The Company may be required to expense these amounts or a portion thereof as reorganization items if the Bankruptcy Court ultimately determines that a portion of the debt is subject to compromise.

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

Liabilities subject to compromise consisted of the following:

	December 27, 2008
	(In thousands)
Accounts payable	\$ 70,107
Accrued expenses	134,239
Secured long-term debt	1,392,049
Unsecured long-term debt	656,996
Total liabilities subject to compromise	<u>\$ 2,253,391</u>

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

NOTE N—INCOME TAXES

The Company's effective tax rate for the three months ended December 27, 2008 was 0% compared to 28% for the three months ended December 29, 2007. The effective tax rate decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the U.S. and Mexico.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will be recovered, the valuation allowance will be reduced.



With few exceptions, the Company is no longer subject to US federal, state or local income tax examinations for years prior to 2003 and is no longer subject to Mexico income tax examination for years prior to 2005. We are currently under audit by the Internal Revenue Service for the tax years ended September 26, 2003 to September 30, 2006. While we expect certain claims made by US federal, state or local taxing authorities will be allowed, it is not practicable at this time to estimate the amount of significant payments, if any, to be made within the next 12 months.

#### NOTE O—DERIVATIVE FINANCIAL INSTRUMENTS

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

#### NOTE P—RELATED PARTY TRANSACTIONS

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

Transactions with the major stockholder or related entities are summarized below.

	Three Months Ended	
	December 27, 2008	December 29, 2007
	(In thousands)	
Loan guaranty fees	\$ 1,473	\$ 962
Contract grower pay	179	260
Lease payments on commercial egg property	188	188
Other sales to major stockholder	243	163
Lease payments and operating expenses on airplane	68	113

Pilgrim Interests, Ltd., an entity related to Lonnie "Bo" Pilgrim, guarantees a portion of the Company's debt obligations. In consideration of such guarantees, the Company has paid Pilgrim Interests, Ltd. a quarterly fee equal to 0.25% of one-half of the average aggregate outstanding balance of such guaranteed debt. Pursuant to the terms of the DIP Credit Agreement, the Company may no longer pay any loan guarantee fees without the consent of the lenders party thereto.

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

#### NOTE Q—COMMITMENTS AND CONTINGENCIES

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as based upon the likelihood of payment, the fair value of such indemnities would not have a material impact on our financial condition, results of operations and cash flows.

At December 27, 2008, the Company was party to outstanding standby letters of credit totaling \$72.0 million that affected the amount of funds available for borrowing under the secured revolving credit facility expiring in 2013. At the same date, the Company was not a party to any outstanding standby letters of credit that would have affected the amount of funds available for borrowing under the DIP Credit Agreement.

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

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

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

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

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

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

NOTE R—BUSINESS SEGMENTS

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

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

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

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

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



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Description of the Company

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's Pride," "the Company," "we," "us," "our," or similar terms) is one the largest chicken companies in the United States ("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.

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

### Executive Summary

The Company continued to face an extremely challenging business environment in the first quarter of 2009. We reported a net loss of \$228.8 million, or \$3.09 per common share, for the quarter, which included a negative gross margin of \$83.4 million. As of December 27, 2008, the Company's accumulated deficit aggregated \$545.9 million. During the first quarter of 2009, the Company used \$112.0 million of cash in operations. At December 27, 2008, we had cash and cash equivalents totaling \$32.6 million. In addition, the Company incurred reorganization costs of \$13.3 million in the first quarter of 2009. These costs included (i) financing fees associated with the Amended and Restated Post-Petition Credit Agreement (the "DIP Credit Agreement") among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto, (ii) professional fees charged for post-petition reorganization services and (iii) fees related to the termination of the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA").

Market prices for feed ingredients decreased in the first quarter of 2009 after reaching unprecedented levels in the last half of 2008. Market prices for feed ingredients remain volatile, however, and there can be no assurance that they will not increase materially. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any hedging arrangements or other derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes.

The following table compares the highest and lowest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the past four years, for each quarter in 2008 and for the first quarter of 2009:

	Corn		Soybean Meal	
	Highest Price	Lowest Price	Highest Price	Lowest Price
2009:				
First Quarter	\$ 5.24	\$ 2.90	\$ 302.00	\$ 237.00
2008:				
Fourth Quarter	7.50	4.86	455.50	312.00
Third Quarter	7.63	5.58	427.90	302.50
Second Quarter	5.70	4.49	384.50	302.00
First Quarter	4.57	3.35	341.50	254.10
2007	4.37	2.62	286.50	160.20
2006	2.68	1.86	204.50	155.80
2005	2.63	1.91	238.00	146.60

Market prices for chicken products have stabilized since the end of 2008 but remain below historic levels and have not yet improved sufficiently to offset the costs of feed ingredients. Many producers within the industry, including Pilgrim's Pride, cut production in 2008 in an effort to correct the general oversupply of chicken in the US, and this has had and continues to have a positive effect on prices for chicken products. Despite these production cuts, there can be no assurance that chicken prices will not decrease due to such factors as weakening demand for breast meat from food service providers and lower prices for chicken leg quarters for the export market as a result of weakness in world economies and restrictive credit markets.

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

On January 27, 2009, the Bankruptcy Court approved the employment agreement between the Company and Don Jackson. Dr. Jackson now serves as the Company's President and Chief Executive Officer and as a member of the Company's Board of Directors. In connection with his appointment, on January 27, 2009, Dr. Jackson was granted an equity award of 3,085,656 shares of the Company's common stock, which are subject to vesting requirements, and a sign-on bonus of \$3,000,000, which is subject to repayment, each as provided in his employment agreement.

#### Chapter 11 Bankruptcy Filings

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

Effective December 1, 2008, the New York Stock Exchange 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."

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

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

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rate for the quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of December 27, 2008, the applicable borrowing base was \$323.6 million and the amount available for borrowings under the DIP Credit Agreement was \$222.4 million. As of February 5, 2009, the applicable borrowing

base was \$309.4 million and the amount available for borrowings under the DIP Credit Agreement was \$195.5 million.

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

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

For additional information on the DIP Credit Agreement, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

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

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

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

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

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

The Debtors have the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of our plan. We will likely file one or more motions to request extensions of these time periods. If the Debtors' exclusivity period lapsed, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

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

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

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

The Company has requested that the Bankruptcy Court impose certain restrictions on trading in shares of the Company's common stock in order to preserve valuable tax attributes. The hearing on the motion is set for February 10, 2009. The Company requested that the trading restrictions apply retroactively to January 17, 2009, the date the motion was filed, to investors beneficially owning at least 4.75% of the outstanding shares of common stock of Pilgrim's Pride Corporation. For these purposes, beneficial ownership of stock will be determined in accordance with special US tax rules that, among other things, apply constructive ownership concepts and treat holders acting together as a single holder. In addition, in the future, the Company may request that the Bankruptcy Court impose certain trading restrictions on certain debt of, and claims against, the Company.

#### Going Concern Matters

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

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. During the first quarter of 2009, the Company reduced headcount by approximately 265 non-production employees. The Company also announced that it would reduce production capacity at a certain production complex in the second quarter of 2009 by eliminating a work shift; the action will result in a headcount reduction of approximately 505 production employees. During 2008, the Company reduced production capacity by closing two production complexes and consolidating operations at a third production complex into its other facilities. These actions resulted in a headcount reduction of approximately 2,300 production employees.

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

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

Business Segments

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

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

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

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

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



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

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

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

#### Results of Operations

##### First Quarter 2009 Compared to First Quarter 2008

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

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





- (a) US chicken sales generated in the first quarter of 2009 decreased 8.2% from US chicken sales generated in the first quarter of 2008. Sales volume decreased 10.5% primarily because of previously announced production cutbacks. Net revenue per pound sold increased 2.7% from the prior year primarily because of increased sales prices on a majority of product lines.
- (b) Mexico chicken sales generated in the first quarter of 2009 increased 12.4% from Mexico chicken sales generated in the first quarter of 2008. Sales volume increased 17.7% from the prior year and net revenue per pound sold decreased 4.5% from the prior year primarily because of increased sales of live chicken.
- (c) US sales of other products generated in the first quarter of 2009 decreased 23.9% from US sales of other products generated in the first quarter of 2008 mainly as the result of reduced sales volumes on commercial eggs and protein conversion products partially offset by increased sales prices on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered by one of Company's protein conversion facilities in late 2008. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.
- (d) Mexico sales of other products generated in the first quarter of 2009 increased 17.5% from Mexico sales of other products generated in the first quarter of 2008 principally because of higher sales volumes.

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

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

- (a) Cost of sales incurred by the US operations during the first quarter of 2009 decreased \$9.6 million from cost of sales incurred by the US operations during the first quarter of 2008. This decrease occurred because of production cutbacks and decreased feed ingredient purchases during the quarter offset by an aggregate net loss of \$21.4 million which the Company recognized during the first quarter of 2009 on derivative financial instruments executed in previous quarters to manage its exposure to changes in corn and soybean meal prices. The Company recognized an aggregate net gain of \$0.1 million during the first quarter of 2008 on derivative financial instruments. Cost of sales incurred by the Mexico operations during the first quarter of 2009 increased \$27.7 million from cost of sales incurred by the Mexico operations during the first quarter of 2008 primarily because of increased net sales and increased feed ingredients costs.
- (b) Gross profit as a percent of net sales generated in the first quarter of 2009 decreased 9.5 percentage points from gross profit as a percent of sales generated in the first quarter of 2008 primarily because of increased feed ingredients costs and the net loss recognized on derivative financial instruments during the current quarter.

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

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

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

- (a) SG&A expenses incurred by the US operations during the first quarter of 2009 decreased 11.5% from SG&A expenses incurred by the US operations during the first quarter of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.
- (b) The Company incurred charges totaling \$3.7 million, composed of severance and facility shutdown costs, related to restructuring actions taken in 2009. These charges were partially offset by a \$1.3 million adjustment that reduced accrued severance and employee retention costs. This adjustment resulted from a change in the restructuring program.
- (c) Operating loss as a percent of net sales generated in the first quarter of 2009 decreased 9.5 percentage points from operating income as a percent of sales generated in the first quarter of 2008 primarily because of deterioration in gross profit performance and charges related to 2009 restructuring actions.

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

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

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

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

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

Liquidity and Capital Resources

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

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

(a) Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base at December 27, 2008 was \$323.6 million.

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

At December 27, 2008, the Company had \$238.8 million outstanding under its revolving credit facility expiring in 2013 and \$506.7 million outstanding under its revolver/term credit agreement expiring in 2016. At that time, the Company was party to outstanding standby letters of credit totaling \$72.0 million. The filing of the Chapter 11 petitions constituted an event of default under, among other of our debt obligations, the revolving credit facility expiring in 2013 and the revolver/term credit agreement expiring in 2016. Outstanding obligations under these facilities became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. Funds are no longer available for borrowing under these two facilities.

Debt Obligations

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 31, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto.

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rate for the quarter ended December 27, 2008 was 11.86%. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loan under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance Sheet Arrangements."

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of December 27, 2008, the applicable borrowing base was \$323.6 million and the amount available for borrowings under the DIP Credit Agreement was \$222.4 million. As of February 5, 2009, the applicable borrowing base was \$309.4 million and the amount available for borrowings under the DIP Credit Agreement was \$195.5 million.

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

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

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

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

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

#### Off-Balance Sheet Arrangements

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



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

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

#### Historical Flow of Funds

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

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

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

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

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

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

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

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

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

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

#### Accounting Pronouncements

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

#### Critical Accounting Policies

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Feed Ingredients

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

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

#### Interest Rates

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

#### Foreign Currency

Our earnings are also affected by foreign currency exchange rate fluctuations related to the Mexican peso net monetary position of our Mexican 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 currency exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the US. However, we currently anticipate that the 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 Mexican subsidiaries denominated in Mexican pesos, was a loss of \$0.3 million in the first quarter of 2009 and a gain of \$0.1 million in the first quarter of 2008. The average exchange rates for the first quarters of 2009 and 2008 were 12.97 Mexican pesos to 1 US dollar and 10.86 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.

#### Investment Quality

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

### Forward Looking Statements

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "project," "plan," "imply," "intend," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include the following:

- Matters affecting the chicken industry generally, including fluctuations in the commodity prices of feed ingredients and chicken;
- Actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings;
- Our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
- Our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- Our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain contracts that are critical to our operations;
- Our ability to retain management and other key individuals;
- Our ability to successfully enter into, obtain court approval of and close anticipated asset sales under Section 363 of the Bankruptcy Code;
- Risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases;
- Risk that the amounts of cash from operations together with amounts available under our DIP Credit Agreement will not be sufficient to fund our operations;
- Management of our cash resources, particularly in light of our bankruptcy proceedings and our substantial leverage;
- Restrictions imposed by, and as a result of, our bankruptcy proceedings and our substantial leverage;
- Additional outbreaks of avian influenza or other diseases, either in our own flocks or elsewhere, affecting our ability to conduct our operations and/or demand for our poultry products;
- Contamination of our products, which has previously and can in the future lead to product liability claims and product recalls;
- Exposure to risks related to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate;
- Changes in laws or regulations affecting our operations or the application thereof;
- New immigration legislation or increased enforcement efforts in connection with existing immigration legislation that cause our costs of business to increase, cause us to change the way in which we do business or otherwise disrupt our operations;
- Competitive factors and pricing pressures or the loss of one or more of our largest customers;
- Currency exchange rate fluctuations, trade barriers, exchange controls, expropriation and other risks associated with foreign operations;
- Disruptions in international markets and distribution channels; and

- The impact of uncertainties of litigation as well as other risks described herein and under "Risk Factors" in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes to information contained in previous filings or communications. Although we have attempted to list comprehensively these important cautionary risk factors, we must caution investors and others that other factors may in the future prove to be important and affecting our business or results of operations.

#### ITEM 4. CONTROLS AND PROCEDURES

As of December 27, 2008, an evaluation was performed under the supervision and with the participation of the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that information we are required to disclose in our reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, the Company's management, including the Senior Chairman of the Board, Chief Executive Officer and Chief Financial Officer, identified no other change in the Company's internal control over financial reporting that occurred during the Company's quarter ended December 27, 2008 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business or the actions described below.

On December 17, 2008, Kenneth Patterson filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie "Ken" Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants. The complaint, brought pursuant to section 502 of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1132, alleges that the individual defendants breached fiduciary duties to participants and beneficiaries of the Pilgrim's Pride Stock Investment Plan (the "Plan"), as administered through the Retirement Savings Plan, and the To-Ricos, Inc. Employee Savings and Retirement Plan (collectively, and together with the Plan, the "Plans"). The allegations in the complaint are similar to the allegations made in the Alcaldo case discussed below. Patterson further alleges that he purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held Company stock or units in Pilgrim's Pride stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees, an order for equitable restitution and the imposition of constructive trust, and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in this action, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On January 23, 2009, Patterson filed a motion to consolidate the subsequently filed, similar Smalls case, which is discussed below, into this action.

On January 2, 2009, Denise M. Smalls filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants. The complaint and the allegations are similar to those filed in the Patterson case discussed above. Smalls alleges that she purports to



represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held Company stock or units in Pilgrim's Pride stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees; an order for equitable restitution and the imposition of constructive trust; and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in these actions, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company. The Patterson case and the Smalls case were included in that motion, which is scheduled to be heard in the Bankruptcy Court on February 10, 2009.

On October 29, 2008, Ronald Alcaido filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled Ronald Alcaido, Individually and On Behalf of All Others Similarly Situated v. Pilgrim's Pride Corporation, et al, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler (collectively, the "Defendants"). The complaint alleges that the Defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by allegedly failing to disclose that "(a) the Company's hedges to protect it from adverse changes in costs were not working and in fact were harming the Company's results more than helping; (b) the Company's inability to continue to use illegal workers would adversely affect its margins; (c) the Company's financial results were continuing to deteriorate rather than improve, such that the Company's capital structure was threatened; (d) the Company was in a much worse position than its competitors due to its inability to raise prices for consumers sufficient to offset cost increases, whereas its competitors were able to raise prices to offset higher costs affecting the industry; and (e) the Company had not made sufficient changes to its business to succeed in the more difficult industry conditions." Mr. Alcaido further alleges that he purports to represent a class of all persons or entities who acquired the common stock of the Company from May 5, 2008 through September 24, 2008. The complaint seeks unspecified injunctive relief and an unspecified amount of damages. On November 21, 2008, the Defendants filed a Motion to Dismiss and Brief in Support Thereof, asserting that Alcaido failed to identify any misleading statements, failed to adequately plead scienter against any Defendants, failed to adequately plead loss causation, failed to adequately plead controlling person liability and, as to the omissions that Alcaido alleged the Defendants did not make, the Defendants alleged that the omissions were, in fact, disclosed. On December 1, 2008, the Company filed a Notice of Suggestion of Bankruptcy. The Company intends to defend vigorously against the merits of this action. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

On November 13, 2008, Chad Howes filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The allegations in the Howes complaint are identical to those in the Acaldo complaint, as are the class allegations and relief sought. The defendants have not yet been served with the Howes complaint.

On December 29, 2008, the Pennsylvania Public Fund Group filed a Motion to Consolidate the Howes case into the Acaldo case, and filed a Motion to be Appointed Lead Plaintiff and for Approval of Lead Plaintiff's Selection of Lead Counsel and Liaison Counsel. Also on that date, the Pilgrim's Investor Group (of which Acaldo is a part) filed a Motion to Consolidate the two cases and a Motion to be Appointed Lead Plaintiff. The Pilgrim's Investor Group has subsequently filed a Notice of Non-Opposition to the Pennsylvania Public Fund Group's Motion for Appointment of Lead Plaintiff. Chad Howes did not seek to be appointed Lead Plaintiff.

The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company. The Acaldo case and the Howes case were included in that motion, which is scheduled to be heard in the Bankruptcy Court on February 10, 2009. No discovery has commenced in either the Acaldo case or the Howes case, and neither case has been set for trial. The Company intends to defend vigorously against the merits of these actions. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

The Wage and Hour Division of the US Department of Labor conducted an industry-wide investigation to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, employees have brought claims against the Company. The claims filed against the Company as of the date of this report include: "Juan Garcia, et al. v. Pilgrim's Pride Corporation, a/k/a Wampler Foods, Inc.", filed in Pennsylvania state court on January 27, 2006 and subsequently removed to the US District Court for the Eastern District of Pennsylvania; "Esperanza Moya, et al. v. Pilgrim's Pride Corporation and Maxi Staff, LLC", filed March 23, 2006 in the Eastern District of Pennsylvania; "Barry Antee, et al. v. Pilgrim's Pride Corporation" filed April 20, 2006 in the Eastern District of Texas; "Stephanie Aaron, et al. v. Pilgrim's Pride Corporation" filed August 22, 2006 in the Western District of Arkansas; "Salvador Aguilar, et al. v. Pilgrim's Pride Corporation" filed August 23, 2006 in the Northern District of Alabama; "Benford v. Pilgrim's Pride Corporation" filed November 2, 2006 in the Northern District of Alabama; "Porter v. Pilgrim's Pride Corporation" filed December 7, 2006 in the Eastern District of Tennessee; "Freida Brown, et al v. Pilgrim's Pride Corporation" filed March 14, 2007 in the Middle District of Georgia, Athens Division; "Roy Menser, et al v. Pilgrim's Pride Corporation" filed February 28, 2007 in the Western District of Paducah, Kentucky; "Victor Manuel Hernandez v. Pilgrim's Pride Corporation" filed January 30, 2007 in the Northern District of Georgia, Rome Division; "Angela Allen et al v. Pilgrim's Pride Corporation" filed March 27, 2007 in United States District Court, Middle District of Georgia, Athens Division; Daisy Hammond and Felicia Pope v.

Pilgrim's Pride Corporation, in the Gainesville Division, Northern District of Georgia, filed on June 6, 2007; Gary Price v. Pilgrim's Pride Corporation, in the US District Court for the Northern District of Georgia, Atlanta Division, filed on May 21, 2007; Kristin Roebuck et al v. Pilgrim's Pride Corporation, in the US District Court, Athens, Georgia, Middle District, filed on May 23, 2007; and Elaine Chao v. Pilgrim's Pride Corporation, in the US District Court, Dallas, Texas, Northern District, filed on August 6, 2007. The plaintiffs generally purport to bring a collective action for unpaid wages, unpaid overtime wages, liquidated damages, costs, attorneys' fees, and declaratory and/or injunctive relief and generally allege that they are not paid for the time it takes to either clear security, walk to their respective workstations, don and doff protective clothing, and/or sanitize clothing and equipment. The presiding judge in the consolidated action in El Dorado issued an initial Case Management order on July 9, 2007. Plaintiffs' counsel filed a Consolidated Amended Complaint and the parties filed a Joint Rule 26(f) Report. A complete scheduling order has not been issued, and discovery has not yet commenced. On March 13, 2008, the Court issued an opinion and order finding that plaintiffs and potential class members are similarly situated and conditionally certifying the class for a collective action. On May 14, 2008, the Court issued its order modifying and approving the court-authorized notice for current and former employees to opt into the class. Persons who choose to opt into the class are to do so within 90 days after the date on which the first notice was mailed. The opt-in period is now closed. As of October 2, 2008, approximately 12,605 plaintiffs have opted into the class.

As of the date of this report, the following suits have been filed against Gold Kist, now merged into Pilgrim's Pride Corporation, which make one or more of the allegations referenced above: Merrell v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Gainesville Division, filed on December 21, 2006; Harris v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Newnan Division, filed on December 21, 2006; Blanke v. Gold Kist, Inc., in the US District Court for the Southern District of Georgia, Waycross Division, filed on December 21, 2006; Clarke v. Gold Kist, Inc., in the US District Court for the Middle District of Georgia, Athens Division, filed on December 21, 2006; Atchison v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 3, 2006; Carlisle v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 2, 2006; Benbow v. Gold Kist, Inc., in the US District Court for the District of South Carolina, Columbia Division, filed on October 2, 2006; Bonds v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Northwestern Division, filed on October 2, 2006. On April 23, 2007, Pilgrim's filed a Motion to Transfer and Consolidate with the Judicial Panel on Multidistrict Litigation ("JPML") requesting that all of the pending Gold Kist cases be consolidated into one case. Pilgrim's Pride withdrew its Motion subject to the Plaintiffs' counsel's agreement to consolidate the seven separate actions into the pending Benbow case by dismissing those lawsuits and refiling/consolidating them into the Benbow action. Motions to Dismiss have been filed in all of the pending seven cases, and all of these cases have been formally dismissed. Pursuant to an agreement between the parties, which was approved by Court-order on June 6, 2007, these cases have been consolidated with the Benbow case. On that date, Plaintiffs were authorized to send notice to individuals regarding the pending lawsuits and were instructed that individuals had three months to file consents to opting in as plaintiffs in the consolidated cases. The opt-in period is now closed. To date, there are approximately 3,006 named plaintiffs and opt-in plaintiffs in the

consolidated cases. The Company and Plaintiffs have jointly requested the Court to remove 367 opt-in plaintiffs because they do not fall within the class definition. The Court recently ordered that Pilgrim's can depose and serve written discovery on the named plaintiffs and approximately 10% of the opt-in class. The Company intends to assert a vigorous defense to the litigation. The amount of ultimate liability with respect to any of these cases cannot be determined at this time.

We are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

#### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2008 Annual Report on Form 10-K, including under the heading "Item 1A. Risk Factors", which risks could materially affect the Company's business, financial condition or future results. These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

#### ITEM 5. OTHER INFORMATION

As previously announced, the Company filed voluntary Chapter 11 petitions on December 1, 2008. The Chapter 11 cases are being jointly administered under case number 08-45664. The Company has and intends to continue to post important information about the restructuring, including monthly operating reports and other financial information required by the Bankruptcy Court, on the Company's website [www.pilgrimspride.com](http://www.pilgrimspride.com) under the "Investors-Reorganization" caption. The Company intends to use its website as a means of complying with its disclosure obligations under SEC Regulation FD. Information is also available via the Company's restructuring information line at (888) 830-4659.

ITEM 6. EXHIBITS

- 3.1 Certificate of incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 2004 filed on November 24, 2004).
- 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
- 4.1 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.2 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.3 Form of 7 5/8% Senior Note due 2015 (included in Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.4 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.5 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 Form of 8 3/8% Subordinated Note due 2017 (included in Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Amendment No. 1 dated as of October 10, 2008 to Amended and Restated Receivables Purchase Agreement, dated as of September 26, 2008 among Pilgrim's Pride Corporation, Pilgrim's Pride Funding Corporation, BMO Capital Markets Corp., as administrator, and the various purchasers and purchaser agents from time to time parties thereto (incorporated by reference from Exhibit 10.42 of the Company's Annual Report on Form 10-K filed on December 11, 2008).

- 10.2 Amendment No. 2 to Purchase and Contribution Agreement dated as of September 26, 2008 among Pilgrim's Pride Funding Corporation and Pilgrim's Pride Corporation (incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 29, 2008).
- 10.3 Limited Duration Waiver of Potential Defaults and Events of Default under Credit Agreement dated October 26, 2008 by and among Pilgrim's Pride Corporation, as borrower, CoBank, ACB, as administrative agent, and the other syndication parties signatory thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 27, 2008).
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- 10.10 Waiver Agreement and Second Amendment to Credit Agreement dated November 30, 2008, by and among the Company and certain non-debtor Mexico subsidiaries of the Company, ING Capital LLC, as agent, and the lenders signatory thereto (incorporated by reference from Exhibit 10.51 of the Company's Annual Report on Form 10-K filed on December 11, 2008).

- 10.11 Amended and Restated Post-Petition Credit Agreement dated December 31, 2008, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 6, 2009).
- 10.12 Amended and Restated Employment Agreement dated January 27, 2009, between the Company and Don Jackson (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 30, 2009).
- 10.13 Separation Agreement dated December 22, 2008, between the Company and Robert A. Wright. \* ⑤
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\* Filed herewith

⑤ Represents a management contract or compensation plan arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PILGRIM'S PRIDE CORPORATION

/s/ Richard A. Cogdill

Date: February 5, 2009

Richard A. Cogdill  
Chief Financial and Accounting Officer



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\* Filed herewith

☉ Represents a management contract or compensation plan arrangement

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# PILGRIMS PRIDE CORP

4845 US HWY. 271 N.  
PITTSBURG, TX 75686  
903.434.1402

## 10-Q

PILGRIM'S PRIDE CORP. 10-Q QTR.2 FY 09  
Filed on 05/07/2009 - Period: 05/04/2009  
File Number 001-09273



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)



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

For the quarterly period ended March 28, 2009

OR



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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 1-9273



**PILGRIM'S PRIDE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

75-1285071

(I.R.S. Employer  
Identification No.)

4845 US Hwy 271 N, Pittsburg, TX

(Address of principal executive offices)

75686-0093

(Zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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

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

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

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

	March 28, 2009	September 27, 2008
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 44,956	\$ 61,553
Restricted cash and cash equivalents	6,664	—
Investment in available-for-sale securities	8,126	10,439
Trade accounts and other receivables, less allowance for doubtful accounts	311,471	144,156
Inventories	825,520	1,036,163
Income taxes receivable	22,753	21,656
Current deferred income taxes	67,767	54,312
Prepaid expenses and other current assets	49,595	105,071
Assets held for sale	52,057	17,370
<b>Total current assets</b>	<b>1,388,909</b>	<b>1,450,720</b>
Investment in available-for-sale securities	55,500	55,854
Other assets	85,233	51,768
Identified intangible assets, net	62,271	67,363
Property, plant and equipment, net	1,573,496	1,673,004
	<b>\$ 3,165,409</b>	<b>\$ 3,298,709</b>
Liabilities and stockholders' equity:		
Liabilities not subject to compromise:		
Accounts payable	264,456	378,887
Accrued expenses	319,595	448,823
Short-term notes payable	89,792	—
Current maturities of long-term debt	—	1,874,469
Other current liabilities	1,600	10,783
<b>Total current liabilities</b>	<b>675,443</b>	<b>2,712,962</b>
Long-term debt, less current maturities	38,950	67,514
Deferred income taxes	88,558	80,755
Other long-term liabilities	88,540	85,737
<b>Total liabilities not subject to compromise</b>	<b>891,491</b>	<b>2,946,968</b>
Liabilities subject to compromise	2,208,893	—
Common stock	740	740
Additional paid-in capital	646,824	646,922
Accumulated deficit	(604,156)	(317,082)
Accumulated other comprehensive income	21,617	21,161
<b>Total stockholders' equity</b>	<b>65,025</b>	<b>351,741</b>
	<b>\$ 3,165,409</b>	<b>\$ 3,298,709</b>

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

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

	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
	(In thousands, except share and per share data)			
Net sales	\$ 1,698,102	\$ 2,100,794	\$ 3,575,093	\$ 4,148,147
Cost of sales	1,600,378	2,124,173	3,560,247	4,066,423
Asset impairment	—	12,022	—	12,022
Gross profit (loss)	97,724	(35,401)	14,846	69,702
Selling, general and administrative expenses	77,879	102,559	170,793	206,992
Restructuring items, net	(435)	5,669	1,987	5,669
Total costs and expenses	1,677,822	2,244,423	3,733,027	4,291,106
Operating income (loss)	20,280	(143,629)	(157,934)	(142,959)
Other expense (income):				
Interest expense	46,444	33,772	86,012	63,712
Interest income	(2,824)	(446)	(3,355)	(954)
Miscellaneous, net	(2,252)	(1,161)	(3,676)	(4,024)
Total other expense, net	41,368	32,165	78,981	58,734
Loss from continuing operations before reorganization items and income taxes	(21,088)	(175,794)	(236,915)	(201,693)
Reorganization items	35,355	—	48,605	—
Loss from continuing operations before income taxes	(56,443)	(175,794)	(285,520)	(201,693)
Income tax expense (benefit)	2,347	(64,293)	2,625	(57,026)
Loss from continuing operations	(58,790)	(111,501)	(288,145)	(144,667)
Income (loss) from operation of discontinued business, net of tax	25	(850)	599	(13)
Gain on sale of discontinued business, net of tax	—	903	—	903
Net loss	\$ (58,765)	\$ (111,448)	\$ (287,546)	\$ (143,777)
Income (loss) per common share—basic and diluted:				
Continuing operations	\$ (0.79)	\$ (1.67)	\$ (3.89)	\$ (2.17)
Discontinued business	—	—	0.01	0.01
Net loss	\$ (0.79)	\$ (1.67)	\$ (3.88)	\$ (2.16)
Dividends declared per common share	\$ —	\$ 0.0225	\$ —	\$ 0.0450
Weighted average shares outstanding	74,055,733	66,555,733	74,055,733	66,555,733

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

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

	Six Months Ended	
	March 28, 2009	March 29, 2008
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (287,546)	\$ (143,777)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	120,671	116,296
Asset impairment	—	12,022
Gain on property disposals	(6,414)	(1,570)
Deferred income tax expense (benefit)	—	(56,082)
Changes in operating assets and liabilities:		
Accounts and other receivables	(161,703)	36,879
Inventories	238,313	(154,874)
Prepaid expenses and other current assets	22,373	(33,699)
Accounts payable and accrued expenses	(67,612)	(18,224)
Income taxes receivable, net	(1,924)	(14,723)
Other	(19,158)	11,977
Cash used in operating activities	(163,000)	(245,775)
Cash flows for investing activities:		
Acquisitions of property, plant and equipment	(48,359)	(70,216)
Purchases of investment securities	(12,116)	(18,466)
Proceeds from sale or maturity of investment securities	8,797	13,969
Change in restricted cash and cash equivalents	(6,664)	—
Proceeds from property disposals	8,396	18,717
Cash used in investing activities	(49,946)	(55,996)
Cash flows from financing activities:		
Proceeds from short-term notes payable	376,117	—
Payments on short-term notes payable	(286,325)	—
Proceeds from long-term debt	830,736	810,516
Payments on long-term debt	(719,599)	(498,932)
Change in outstanding cash management obligations	(3,562)	24,168
Cash dividends paid	—	(2,995)
Other	(123)	—
Cash provided by financing activities	197,244	332,757
Effect of exchange rate changes on cash and cash equivalents	(895)	41
Increase (decrease) in cash and cash equivalents	(16,597)	31,027
Cash and cash equivalents, beginning of period	61,553	66,168
Cash and cash equivalents, end of period	<u>\$ 44,956</u>	<u>\$ 97,195</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A—CHAPTER 11 PROCEEDINGS

Chapter 11 Bankruptcy Filings

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

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

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

Chapter 11 Process

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

#### Going Concern Matters

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

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

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Pilgrim's Pride Corporation  
March 28, 2009

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

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

Condensed Combined Financial Information of Debtors

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

<b>Balance Sheet Information:</b>	
Current assets	\$ 1,447,889
Identified intangible assets	62,271
Investment in subsidiaries	170,856
Property, plant and equipment, net	1,444,672
Other assets	89,165
<b>Total assets</b>	<b>\$ 3,214,863</b>
Current liabilities	\$ 564,211
Long-term liabilities	340,250
Liabilities not subject to compromise	904,461
Liabilities subject to compromise	2,208,893
<b>Total liabilities</b>	<b>3,113,354</b>
Stockholders' equity	101,509
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,214,863</b>
<b>Statement of Operations Information:</b>	
Net sales	\$ 3,249,502
Gross loss	(6,998)
Operating loss	(165,356)
Reorganization items	48,605
Income from equity affiliates	713
Net loss	(287,546)
<b>Statement of Cash Flows Information:</b>	
Cash used in operating activities	\$ (97,613)
Cash used in investing activities	(43,518)
Cash provided by financing activities	122,857

## NOTE B—BASIS OF PRESENTATION

### Consolidated Financial Statements

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

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

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

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

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

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

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

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

## Quality of Investments

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

## Recently Adopted Accounting Pronouncements

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

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

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

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

#### Accounting Pronouncements Issued But Not Yet Adopted

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

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

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

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

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

NOTE C—REORGANIZATION ITEMS

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

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

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

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

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

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

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



NOTE D—DISCONTINUED BUSINESS

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

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

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

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

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

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

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

	March 28, 2009	September 27, 2008
	(In thousands)	
Trade accounts and other receivables, less allowance for doubtful accounts	\$ 204	\$ 5,881
Inventories	—	27,638
Current assets of discontinued business	\$ 204	\$ 33,519
Accounts payable	\$ 49	\$ 7,737
Accrued expenses	1,551	3,046
Current liabilities of discontinued business	\$ 1,600	\$ 10,783

NOTE E—RESTRUCTURING ACTIVITIES

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

Second Quarter 2009

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

First Quarter 2009

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

Fourth Quarter 2008

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

Third Quarter 2008

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

Second Quarter 2008

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

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

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

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

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

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

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

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

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

#### NOTE F—FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

NOTE G—TRADE ACCOUNTS AND OTHER RECEIVABLES

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

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

In connection with the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement. The loss recognized on the sold receivables during the six months ended March 28, 2009 was not material.

NOTE H—INVENTORIES

Inventories consisted of the following components:

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

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

NOTE I—IDENTIFIED INTANGIBLE ASSETS

Identified intangible assets, net consisted of the following components:

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

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

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

NOTE J—PROPERTY, PLANT AND EQUIPMENT

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

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

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



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

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

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

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

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

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

NOTE K—ACCRUED EXPENSES

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

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

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

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

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

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

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the US Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement dated December 31, 2008 among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto.

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

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital

expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of March 28, 2009, the applicable borrowing base was \$335.8 million and the amount available for borrowings under the DIP Credit Agreement was \$246.0 million. As of May 6, 2009, the applicable borrowing base was \$365.7 million, the amount available for borrowings under the DIP Credit Agreement was \$322.7 million and outstanding borrowings under the DIP Credit Agreement totaled \$43.0 million.

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

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

During the first six months of 2009, the Company borrowed \$616.7 million and repaid \$525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed \$214.1 million and repaid \$179.7 million under the secured revolving credit facility expiring in 2013, borrowed \$376.1 million and repaid \$286.3 million under the DIP Credit Agreement and repaid \$14.4 million under other facilities.

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement, which expires in 2011, now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate

amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the "Secured Debt") as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the "Unsecured Debt"). The aggregate principal amount owed under these credit agreements and notes was approximately \$1,999.6 million as of March 28, 2009. As a result of such event of default, all obligations under these agreements became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling \$3.3 million and \$4.4 million in the three and six months ended March 28, 2009.

In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. The revenue bonds become due in 2029. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds continue to be held by the trustee of the bonds until we draw on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee has the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the

holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

#### NOTE M—LIABILITIES SUBJECT TO COMPROMISE

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

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

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

Liabilities subject to compromise consisted of the following:

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

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

#### NOTE N—INCOME TAXES

The Company recorded income tax expense of \$2.6 million, a (1%) effective tax rate, for the six months ended March 28, 2009, compared to an income tax benefit of \$57.0 million, a 28% effective tax rate, for the six months ended March 29, 2008. The income tax benefit decreased from the prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will be recovered, the valuation allowance will be reduced.

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

NOTE O—COMPREHENSIVE LOSS

Components of comprehensive loss include:

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

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

NOTE P—DERIVATIVE FINANCIAL INSTRUMENTS

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



NOTE Q—RELATED PARTY TRANSACTIONS

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

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

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

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

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

#### NOTE R—COMMITMENTS AND CONTINGENCIES

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as based upon the likelihood of payment, the fair value of such indemnities would not have a material impact on our financial condition, results of operations and cash flows.

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

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

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

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

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

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

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

NOTE S—BUSINESS SEGMENTS

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

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

- (a) Includes amortization of capitalized financing costs of \$1.8 million, \$1.1 million, \$3.3 million and \$2.1 million recognized in the second quarter of 2009, the second quarter of 2008, the first six months of 2009 and the first six months of 2008, respectively.
- (b) Includes amortization of intangible assets of \$2.5 million, \$2.5 million, \$5.1 million and \$5.1 million recognized in the second quarter of 2009, the second quarter of 2008, the first six months of 2009 and the first six months of 2008, respectively.
- (c) Excludes depreciation costs incurred by our discontinued turkey business of \$0.3 million and \$0.7 million during the three and six months ended March 29, 2008, respectively.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Description of the Company

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's Pride," "the Company," "we," "us," "our," or similar terms) is one the largest chicken companies in the United States ("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.

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

### Executive Summary

The Company continued to face an extremely challenging business environment in the second quarter of 2009. We reported a net loss of \$58.8 million, or \$0.79 per common share, for the quarter, which included a positive gross margin of \$97.7 million, and a net loss of \$287.5 million, or \$3.88 per common share, for the first six months of 2009, which included a positive gross margin of \$14.8 million. As of March 28, 2009, the Company's accumulated deficit aggregated \$604.1 million. During the first six months of 2009, the Company used \$93.8 million of cash in operations. At March 28, 2009, we had cash and cash equivalents totaling \$45.0 million. In addition, the Company incurred reorganization costs of \$35.4 million in the second quarter of 2009 and \$48.6 million in the first six months of 2009. These costs included (i) financing fees associated with the Amended and Restated Post-Petition Credit Agreement (the "DIP Credit Agreement") among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto, (ii) professional fees charged for post-petition reorganization services and (iii) fees related to the termination of the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA").

Market prices for feed ingredients decreased in the first six months of 2009 after reaching unprecedented levels in the last half of 2008. Market prices for feed ingredients remain volatile, however, and there can be no assurance that they will not increase materially. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any hedging arrangements or other derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes.

The following table compares the highest and lowest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the past four years, for each quarter in 2008 and for the second and first quarters of 2009:

	Corn		Soybean Meal	
	Highest Price	Lowest Price	Highest Price	Lowest Price
2009:				
Second Quarter	\$ 4.28	\$ 3.38	\$ 326.00	\$ 264.80
First Quarter	5.24	2.90	302.00	237.00
2008:				
Fourth Quarter	7.50	4.86	455.50	312.00
Third Quarter	7.63	5.58	427.90	302.50
Second Quarter	5.70	4.49	384.50	302.00
First Quarter	4.57	3.35	341.50	254.10
2007	4.37	2.62	286.50	160.20
2006	2.68	1.86	204.50	155.80
2005	2.63	1.91	238.00	146.60

Market prices for chicken products have stabilized since the end of 2008 but remain below historic levels and have not yet improved sufficiently to offset the costs of feed ingredients. Many producers within the industry, including Pilgrim's Pride, cut production in 2008 in an effort to correct the general oversupply of chicken in the US, and this has had and continues to have a positive effect on prices for chicken products. Despite these production cuts, there can be no assurance that chicken prices will not decrease due to such factors as weakening demand for breast meat from food service providers and lower prices for chicken leg quarters for the export market as a result of weakness in world economies and restrictive credit markets.

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

On January 27, 2009, the Bankruptcy Court approved the employment agreement between the Company and Don Jackson. Dr. Jackson now serves as the Company's President and Chief Executive Officer and as a member of the Company's Board of Directors. In connection with his appointment, on January 27, 2009, Dr. Jackson was granted an equity award of 3,085,656 shares of the Company's common stock, which are subject to vesting requirements, and a sign-on bonus of \$3,000,000, which may be subject to repayment, each as provided in his employment agreement.

#### Chapter 11 Bankruptcy Filings

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

Effective December 1, 2008, the New York Stock Exchange 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."

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



## Chapter 11 Process

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

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

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

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes,

depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of March 28, 2009, the applicable borrowing base was \$335.8 million and the amount available for borrowings under the DIP Credit Agreement was \$246.0 million. As of May 6, 2009, the applicable borrowing base was \$365.7 million, the amount available for borrowings under the DIP Credit Agreement was \$322.7 million and outstanding borrowings under the DIP Credit Agreement totaled \$43.0 million.

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

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

For additional information on the DIP Credit Agreement, see "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 ordered pre-petition but received from and after the Petition Date and other business-related payments necessary to maintain the operation of our businesses. The Debtors have retained, subject to Bankruptcy Court approval, legal and financial professionals to advise the Debtors on the bankruptcy proceedings and certain other "ordinary course" professionals. From time to time, the Debtors may seek Bankruptcy Court approval for the retention of additional professionals.

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

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

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

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

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

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

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

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

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

#### Going Concern Matters

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

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. In April 2009, the Company reduced headcount by approximately 115 non-production employees and announced the upcoming closure of a processing complex in Dalton, Georgia that will reduce headcount by approximately 280 production employees. During the second quarter of 2009, the Company (1) announced the upcoming closures of processing complexes in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana and Franconia, Pennsylvania, (2) closed a distribution center in Houston, Texas and (3) reduced or consolidated production at various facilities throughout the US. These actions will ultimately result in a headcount reduction of approximately 4,450 production employees. During the first quarter of 2009, the Company reduced headcount by approximately 265 non-production employees and announced an upcoming reduction in production at its processing complex in Live Oak, Florida that will result in a headcount reduction of approximately 220 production employees. During 2008, the Company closed processing complexes in Bossier City, Louisiana and Clinton, Arkansas and reduced production at its operating complex in El Dorado, Arkansas. These actions resulted in a headcount reduction of approximately 2,300 production employees.

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

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

Business Segments

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

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

- (a) Includes amortization of capitalized financing costs of \$1.8 million, \$1.1 million, \$3.3 million and \$2.1 million recognized in the second quarter of 2009, the second quarter of 2008, the first six months of 2009 and the first six months of 2008, respectively.
- (b) Includes amortization of intangible assets of \$2.5 million, \$2.5 million, \$5.1 million and \$5.1 million recognized in the second quarter of 2009, the second quarter of 2008, the first six months of 2009 and the first six months of 2008, respectively.
- (c) Excludes depreciation costs incurred by our discontinued turkey business of \$0.3 million and \$0.7 million during the three and six months ended March 29, 2008, respectively.

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

	Percentage of Net Sales			
	Three Months Ended		Six Months Ended	
	March 28, 2009	March 29, 2008	March 28, 2009	March 29, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	94.2%	101.1%	99.6%	98.0%
Asset impairment	—%	0.6%	—%	0.3%
Gross profit (loss)	5.8%	(1.7) %	0.4%	1.7%
Selling, general and administrative ("SG&A") expenses	4.6%	4.9%	4.8%	5.0%
Restructuring charges, net	—%	0.2%	—%	0.1%
Operating income (loss)	1.2%	(6.8) %	(4.4) %	(3.4) %
Interest expense	2.7%	1.6%	2.4%	1.5%
Reorganization items	2.1%	—%	1.4%	—%
Loss from continuing operations before income taxes	(3.3) %	(8.4) %	(8.0) %	(4.9) %
Loss from continuing operations	(3.5) %	(5.3) %	(8.1) %	(3.5) %
Net loss	(3.5) %	(5.3) %	(8.0) %	(3.5) %



Results of Operations

Second Quarter 2009 Compared to Second Quarter 2008

Net sales. Net sales for the second quarter of 2009 decreased \$402.7 million, or 19.2%, from the second quarter of 2008. The following table provides net sales information:

Source	Second Quarter 2009	Change from Second Quarter 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ 1,476,292	\$ (246,675)	(14.3) % (a)
Mexico	109,066	(18,246)	(14.3) % (b)
Total chicken	1,585,358	(264,921)	(14.3) %
Other products:			
United States	105,583	(138,324)	(56.7) % (c)
Mexico	7,161	553	8.4%
Total other products	112,744	(137,771)	(55.0) %
Total net sales	\$ 1,698,102	\$ (402,692)	(19.2) %

- (a) US chicken sales generated in the second quarter of 2009 decreased 14.3% from US chicken sales generated in the second quarter of 2008. Sales volume decreased 14.6% primarily because of previously announced production cutbacks. Net revenue per pound sold increased 0.3% from the prior year primarily because of increased sales prices on a majority of product lines.
- (b) Mexico chicken sales generated in the second quarter of 2009 decreased 14.3% from Mexico chicken sales generated in the second quarter of 2008. Sales volume decreased 12.5% from the prior year and net revenue per pound sold decreased 2.1% from the prior year primarily because of decreased sales of live chicken.
- (c) US sales of other products generated in the second quarter of 2009 decreased 56.7% from US sales of other products generated in the second quarter of 2008 mainly as the result of reduced sales volumes on commercial eggs and protein conversion products partially offset by increased sales prices on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered by one of Company's protein conversion facilities in late 2008. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

Gross profit (loss). Gross profit (loss) results increased by \$133.1 million, or 376.0%, from gross loss of \$35.4 million incurred in the second quarter of 2008 to gross profit of \$97.7 million incurred in the second quarter of 2009. The following table provides gross profit (loss) information.

Components	Second Quarter 2009	Change from Second Quarter 2008		Percent of Net Sales	
		Amount	Percent	Second Quarter 2009	Second Quarter 2008
(In thousands, except percent data)					
Net sales	\$ 1,698,102	\$ (402,692)	(19.2) %	100.0%	100.0%
Cost of sales	1,600,378	(523,795)	(24.7) %	94.2%	101.1% (a)
Asset impairment	—	(12,022)	(100.0) %	—%	0.6% (b)
Gross profit	\$ 97,724	\$ 133,125	376.0%	5.8%	(1.7) % (c)

- (a) Cost of sales incurred by the US operations during the second quarter of 2009 decreased \$492.2 million from cost of sales incurred by the US operations during the second quarter of 2008. This decrease occurred because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the quarter. Cost of sales incurred by the Mexico operations during the second quarter of 2009 decreased \$31.6 million from cost of sales incurred by the Mexico operations during the second quarter of 2008 primarily because of decreased net sales and decreased feed ingredient costs.
- (b) The Company incurred charges totaling \$12.0 million, composed of inventory and property, plant and equipment impairment costs, related to restructuring actions taken in the second quarter of 2008.
- (c) Gross profit as a percent of net sales generated in the second quarter of 2009 increased 7.5 percentage points from gross profit as a percent of sales generated in the second quarter of 2008 primarily because of production cutbacks and decreased feed ingredient costs during the quarter.

Operating income (loss). Operating income (loss) results increased by \$163.9 million, or 114.1%, from an operating loss of \$143.6 million generated for the second quarter of 2008 to operating income of \$20.3 million incurred in the second quarter of 2009. The following tables provide operating income (loss) information.

Source	Second Quarter 2009	Change from Second Quarter 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ 10,929	\$ 167,491	107.0%
Mexico	11,804	15,524	417.3%
Total chicken	22,733	183,015	114.2%
Other products:			
United States	(4,739)	(38,203)	(114.2) %
Mexico	1,851	971	110.3%
Total other products	(2,888)	(37,232)	(108.4) %
Asset impairment	—	12,022	100.0%
Restructuring items, net	435	6,104	107.7%
Total operating loss	\$ 20,280	\$ 163,909	114.1%

Income taxes. The Company recorded income tax expense of \$2.3 million for the three months ended March 28, 2009, compared to an income tax benefit of \$64.3 million for the three months ended March 29, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

Loss from operation of discontinued business. The Company generated income from the operation of its discontinued turkey business of \$40,000 (\$25,000, net of tax) in the second quarter of 2009 compared to a loss of \$1.4 million (\$0.8 million, net of tax) in the second quarter of 2008. Net sales generated by the discontinued turkey business in the second quarter of 2008 were \$10.2 million. There were no net sales generated by the discontinued turkey business in the second quarter of 2009.

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).

First Six Months of 2009 Compared to First Six Months of 2008

Net sales. Net sales for the first six months of 2009 decreased \$573.1 million, or 13.8%, from the first six months of 2008. The following table provides net sales information:

Source	First Six Months 2009	Change from First Six Months 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ 3,063,257	\$ (387,852)	(11.2)% (a)
Mexico	245,117	(3,193)	(1.3)% (b)
Total chicken	3,308,374	(391,045)	(10.6)%
Other products:			
United States	250,367	(183,929)	(42.4)% (c)
Mexico	16,352	1,920	13.3%
Total other products	266,719	(182,009)	(40.6)%
Total net sales	\$ 3,575,093	\$ (573,054)	(13.8)%

(a) US chicken sales generated in the first six months of 2009 decreased 11.2% from US chicken sales generated in the first six months of 2008. Sales volume decreased 12.6% primarily because of previously announced production cutbacks. Net revenue per pound sold increased 1.5% from the prior year primarily because of increased sales prices on a majority of product lines.

(b) Mexico chicken sales generated in the first six months of 2009 decreased 1.3% from Mexico chicken sales generated in the first six months of 2008. Sales volume increased 3.0% from the prior year and net revenue per pound sold decreased 4.1% from the prior year primarily because of increased sales of live chicken.

(c) US sales of other products generated in the first six months of 2009 decreased 42.4% from US sales of other products generated in the first six months of 2008 mainly as the result of reduced sales volumes on commercial eggs and protein conversion products partially offset by increased sales prices on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered by one of Company's protein conversion facilities in late 2008. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

Gross profit (loss). Gross profit decreased by \$54.9 million, or 78.7%, from \$69.7 million in the first six months of 2008 to \$14.8 million in the first six months of 2009. The following table provides gross profit (loss) information.

Components	First Six Months 2009	Change from First Six Months 2008		Percent of Net Sales	
		Amount	Percent	First Six Months 2009	First Six Months 2008
		(In thousands, except percent data)			
Net sales	\$ 3,575,093	\$ (573,054)	(13.8) %	100.0%	100.0%
Cost of sales	3,560,247	(506,176)	(12.4) %	99.6%	98.0% (a)
Asset impairment	—	(12,022)	(100.0) %	—%	0.3% (b)
Gross profit (loss)	\$ 14,846	\$ (54,856)	(78.7) %	0.4%	1.7% (c)

(a) Cost of sales incurred by the US operations during the first six months of 2009 decreased \$493.6 million from cost of sales incurred by the US operations during the first six months of 2008. This decrease occurred because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the first six months of 2009 offset by an aggregate net loss of \$21.4 million which the Company recognized during the first quarter of 2009 on derivative financial instruments executed in previous quarters to manage its exposure to changes in corn and soybean meal prices. The Company recognized an aggregate net gain of \$13.2 million during the first six months of 2008 on derivative financial instruments. Cost of sales incurred by the Mexico operations during the first six months of 2009 increased \$12.6 million from cost of sales incurred by the Mexico operations during the first six months of 2008 primarily because increased feed ingredient costs.

(b) The Company incurred charges totaling \$12.0 million, composed of inventory and property, plant and equipment impairment costs, related to restructuring actions taken in the first six months of 2008.

(c) Gross profit as a percent of net sales generated in the first six months of 2009 decreased 1.3 percentage points from gross profit as a percent of sales generated in the first six months of 2008 primarily because of the net loss recognized on derivative financial instruments during the first quarter of 2009.

Operating income (loss). Operating loss incurred increased \$15.0 million, or 10.5%, from \$142.9 million for the first six months of 2008 to \$157.9 million for the first six months of 2009. The following tables provide operating income (loss) information:

Source	First Six Months 2009	Change from First Six Months 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ (167,707)	\$ 7,949	4.5%
Mexico	3,854	11,666	149.3%
Total chicken	(163,853)	19,615	10.7%
Other products:			
United States	4,174	(52,061)	(92.6)%
Mexico	3,732	1,767	89.9%
Total other products	7,906	(50,294)	(86.4)%
Asset impairment	—	12,022	100.0%
Restructuring items, net	(1,987)	3,682	64.9%
Total operating loss	\$ (157,934)	\$ (14,975)	(10.5)%

Components	First Six Months 2009	Change from First Six Months 2008		Percent of Net Sales	
		Amount	Percent	First Six Months 2009	First Six Months 2008
				(In thousands, except percent data)	
Gross profit	\$ 14,846	\$ (54,856)	(78.7)%	0.4%	1.7%
SG&A expenses	170,793	(36,199)	(17.5)%	4.8%	5.0% (a)
Restructuring items, net	1,987	(3,682)	(64.9)%	—%	0.1% (b)
Operating loss	\$ (157,934)	\$ (14,975)	(10.5)%	(4.4)%	(3.4)% (c)

(a) SG&A expenses incurred by the US operations during the first six months of 2009 decreased 17.6% from SG&A expenses incurred by the US operations during the first six months of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.

(b) The Company incurred charges totaling \$2.0 million, composed primarily of severance costs, related to restructuring actions taken in the first six months of 2009 partially offset by the elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2008 restructuring actions during the second quarter of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for several of the 2008 restructuring actions during the second quarter of 2009. The Company incurred charges totaling \$5.7 million, composed of severance and facility shutdown costs, related to restructuring actions taken in the first six months of 2008.

(c) Operating loss as a percent of net sales generated in the first six months of 2009 increased 1.0 percentage point from operating loss as a percent of sales generated in the first six months of 2008 primarily because of deterioration in gross profit performance and charges related to 2008 restructuring actions.

Interest expense. Interest expense increased 34.8% to \$86.0 million in the first six months of 2009 from \$63.8 million in the first six months of 2008 primarily because of increased borrowings. As a percentage of sales, interest expense in the first six months of 2009 increased to 2.4% from 1.5% in the first six months of 2008.

Miscellaneous, net. Consolidated miscellaneous income decreased from \$4.0 million in the first six months of 2008 to \$3.2 million in the first six months of 2009 primarily because of unfavorable currency exchange results due to a decrease in the average exchange rate between the Mexican peso and the US dollar during those two periods.

Reorganization items. The Company incurred reorganization costs of \$48.6 million in the first six months of 2009. These costs included (1) financing fees associated with the DIP Credit Agreement; (2) professional fees charged for reorganization services; (3) severance, live flock impairment and inventory disposal costs related to the upcoming closures of facilities in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana and Franconia, Pennsylvania, (4) severance costs related to both the closed distribution center in Houston, Texas, the Operations management reduction-in-force action in February 2009 and reduced or consolidated production at various facilities throughout the US and (5) fees related to the termination of the RPA.

Income taxes. The Company recorded income tax expense of \$2.6 million for the six months ended March 28, 2009, compared to an income tax benefit of \$57.0 million for the six months ended March 29, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

Loss from operation of discontinued business. The Company generated income from the operation of its discontinued turkey business of \$1.0 million (\$0.6 million, net of tax) in the first six months of 2009 compared to a loss of \$22,000 (\$13,000, net of tax) in the first six months of 2008. Net sales generated by the discontinued turkey business in the first six months of 2009 and the first six months of 2008 were \$25.8 million and \$56.0 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).

Liquidity and Capital Resources

The following table presents our available sources of liquidity as of March 28, 2009:

Source of Liquidity	Facility Amount	Amount Outstanding (In millions)	Available
Cash and cash equivalents	\$ —	\$ —	\$ 45.0
Investments in available-for-sale securities	—	—	8.1
Debt facilities:			
DIP Credit Agreement expiring 2009	450.0	89.8	246.0 (a)(b)
Revolving credit facility expiring 2011	39.0	39.0	—

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible (a) inventory and eligible receivables. The borrowing base at March 28, 2009 was \$335.8 million.

At May 6, 2009, total funds available for borrowing under the DIP Credit Agreement were \$322.7 million and outstanding borrowings under the DIP (b) Credit Agreement totaled \$43.0 million.

At March 28, 2009, the Company had \$216.2 million outstanding under its revolving credit facility expiring in 2013 and \$1,126.4 million outstanding under its revolver/term credit agreement expiring in 2016. At that time, the Company was party to outstanding standby letters of credit totaling \$68.8 million. The filing of the Chapter 11 petitions constituted an event of default under, among other of our debt obligations, the revolving credit facility expiring in 2013 and the revolver/term credit agreement expiring in 2016. Outstanding obligations under these facilities became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. Funds are no longer available for borrowing under these two facilities.

Debt Obligations

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement dated December 31, 2008 among the Company, as borrower, the Subsidiaries, as guarantors, the DIP Agent, and the lenders party thereto.

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

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



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

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

During the first six months of 2009, the Company borrowed \$616.7 million and repaid \$525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed \$214.1 million and repaid \$179.7 million under the secured revolving credit facility expiring in 2013, borrowed \$376.1 million and repaid \$286.3 million under the DIP Credit Agreement and repaid \$14.4 million under other facilities.

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement, which expires in 2011, to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the "Secured Debt") as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the "Unsecured Debt"). The aggregate principal amount owed under these credit agreements and notes was approximately \$1,999.6 million as of March 28, 2009. As a result of such event of default, all obligations under these agreements became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling \$3.3 million and \$4.4 million in the three and six months ended March 28, 2009.

#### Off-Balance Sheet Arrangements

In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. The revenue bonds become due in 2029. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds continue to be held by the trustee of the bonds until we draw on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee has the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The loss recognized on the sold receivables during the six months ended March 28, 2009 was not material. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

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

#### Historical Flow of Funds

Cash used in operating activities was \$163.0 million and \$245.7 million for the six months ended March 28, 2009 and March 29, 2008, respectively. The decrease in cash used in operating activities was primarily the result of favorable changes in both operating assets and liabilities and deferred tax benefits partially offset by the significantly larger net loss incurred in the first six months of 2009 as compared to the net loss incurred in the first six months of 2008.

Our working capital position increased \$1,975.7 million to a surplus of \$713.5 million and a current ratio of 2.05 compared with a deficit of \$1,262.2 million and a current ratio of 0.53 at September 27, 2008 primarily because of a significant decrease in current maturities of long-term debt and the other working capital changes discussed below. Current maturities of long-term debt decreased from \$1,874.5 million at September 27, 2008 to \$0 at March 28, 2009 as most long-term debt was classified as liabilities subject to compromise because of the bankruptcy proceedings.

Trade accounts and other receivables increased \$167.3 million, or 116.1%, to \$311.5 million at March 28, 2009 from \$144.2 million at September 27, 2008. This increase resulted primarily from our repurchase of receivables originally sold under the RPA. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

Inventories decreased \$210.7 million, or 20.3%, to \$825.5 million at March 28, 2009 from \$1,036.2 million at September 27, 2008 due to lower feed ingredient prices and several actions taken by the Company. These actions include the Company's previously announced production cutbacks and plant closures that resulted in reduced live flock inventories, feed inventories, and packaging and other supplies inventories. Additionally, the Company made a concerted effort early in the year to sell down surplus inventories in order to generate cash.

Prepaid expenses and other current assets decreased \$22.2 million, or 31.0%, to \$49.4 million at March 28, 2009 from \$71.6 million at September 27, 2008. This decrease occurred primarily because the Company suspended the use of derivative financial instruments in response to its current financial condition. We settled all outstanding derivative financial instruments in October 2008.

Accounts payable decreased \$114.4 million, or 30.2%, to \$264.5 million at March 28, 2009 from \$378.9 million at September 27, 2008. This decrease occurred for various reasons, including lower feed ingredient prices, the impact of the Company's previously announced production cutbacks and because certain vendors with which the Company previously maintained open trade accounts required prepayments for all future deliveries after learning about the Company's current financial condition. At March 28, 2009, we classified accounts payable totaling \$52.7 million as liabilities subject to compromise because of the bankruptcy.

Accrued expenses decreased \$129.2 million, or 28.8%, to \$319.6 million at March 28, 2009 from \$448.8 million at September 27, 2008. This decrease resulted from reductions in the accrued balances for marketing, restructuring, severance and utilities costs. At March 28, 2009, we classified accrued expenses totaling \$129.7 million as liabilities subject to compromise because of the bankruptcy.

Cash used in investing activities was \$49.9 million and \$56.0 million for the first six months of 2009 and 2008, respectively. Capital expenditures of \$48.4 million and \$70.2 million for the six months ended March 28, 2009 and March 29, 2008, respectively, were primarily incurred for the routine replacement of equipment and to improve efficiencies and reduce costs. Capital expenditures for 2009 will be restricted to routine replacement of equipment in our current operations in addition to important projects we began in 2008 and will not exceed the \$150 million amount allowed under the DIP Credit Agreement. Cash was used to purchase investment securities totaling \$12.1 million and \$18.5 million in the first six months of 2009 and 2008, respectively. Cash proceeds in the first six months of 2009 and 2008 from the sale or maturity of investment securities were \$8.8 million and \$14.0 million, respectively. Restricted cash increased \$6.7 million in the first six months of 2009 to collateralize a standby letter of credit guaranteeing certain self insurance obligations. Cash proceeds from property disposals for the six months ended March 28, 2009 and March 29, 2008 were \$8.4 million and \$18.7 million, respectively.

Cash provided by financing activities was \$197.2 million and \$332.8 million for the six months ended March 28, 2009 and March 29, 2008, respectively. Cash proceeds in the first six months of 2009 from short-term notes payable were \$376.1 million. Cash was used to repay short-term notes payable totaling \$286.3 million in the first six months of 2009. Cash proceeds in the first six months of 2009 and 2008 from long-term debt were \$830.7 million and \$810.5 million, respectively. Cash was used to repay long-term debt totaling \$719.6 million and \$498.9 million in the first six months of 2009 and 2008, respectively. Cash used in the first six months of 2009 because of a decrease in outstanding cash management obligations totaled \$3.6 million. Cash provided in the first six months of 2008 because of an increase in outstanding cash management obligations totaled \$24.2 million. Cash was used for other financing activities totaling \$0.1 million in the first six months of 2009. Cash was used to pay dividends totaling \$3.0 million in the first six months of 2008.

The only material changes during the six months ended March 28, 2009, outside the ordinary course of business, in the specified contractual obligations presented in the Company's Annual Report on Form 10-K for 2008 were the borrowings and repayments under the DIP Credit Agreement. At March 28, 2009, payments due in less than one year on obligations under the DIP Credit Agreement totaled \$89.8 million.

#### Accounting Pronouncements

Discussion regarding our pending adoption of Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations, SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51, Financial Accounting Standards Board Staff Position ("FSP") FAS142-3, Determination of the Useful Life of Intangible Assets, and FSP FAS132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

#### Critical Accounting Policies

During the six months ended March 28, 2009, (i) we did not change any of our existing critical accounting policies, (ii) no existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate, and (iii) there were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Feed Ingredients

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

Market risk is estimated as a hypothetical 10% increase in the weighted-average cost of our primary feed ingredients as of March 28, 2009. Based on our feed consumption during the six months ended March 28, 2009, such an increase would have resulted in an increase to cost of sales of approximately \$125.1 million, excluding the impact of any feed ingredients derivative financial instruments in that period. A 10% change in ending feed ingredients inventories at March 28, 2009 would be \$7.3 million, excluding any potential impact on the production costs of our chicken inventories.

#### Interest Rates

Our earnings are affected by changes in interest rates due to the impact those changes have on our variable-rate debt instruments and the fair value of our fixed-rate debt instruments. Our variable-rate debt instruments represented 56.9% of our long-term debt at March 28, 2009. Holding other variables constant, including levels of indebtedness, a 25-basis-points increase in interest rates would have increased our interest expense by \$1.5 million for the first six months of 2009. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate long-term debt at March 28, 2009. Due to our current financial condition, our public fixed-rate debt is trading at a substantial discount. As of March 28, 2009, the most recent trades of our 7 5/8% senior unsecured notes and 8 3/8% senior subordinated unsecured notes were executed at average prices of \$67.46 per \$100.00 par value and \$41.82 per \$100.00 par value, respectively. Management expects that the fair value of our non-public fixed-rate debt has also decreased, but cannot reliably estimate the fair value at this time.

#### Foreign Currency

Our earnings are also affected by foreign currency exchange rate fluctuations related to the Mexican peso net monetary position of our Mexican 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 currency exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the US. However, we currently anticipate that the 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 Mexican subsidiaries denominated in Mexican pesos, was a gain of \$0.2 million in the first six months of 2009 and a gain of \$0.4 million in the first six months of 2008. The average exchange rates for the first six months of 2009 and 2008 were 13.66 Mexican pesos to 1 US dollar and 10.84 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.

#### Quality of Investments

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

#### Forward Looking Statements

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "project," "plan," "imply," "intend," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include the following:

- Matters affecting the chicken industry generally, including fluctuations in the commodity prices of feed ingredients and chicken;
- Actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings;
- Our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
- Our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- Our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain contracts that are critical to our operations;
- Our ability to retain management and other key individuals;
- Our ability to successfully enter into, obtain court approval of and close anticipated asset sales under Section 363 of the Bankruptcy Code;
- Certain of the Company's restructuring activities, including selling assets, idling facilities, reducing production and reducing workforce, will result in reduced capacities and sales volumes and may have a disproportionate impact on our income relative to the cost savings.
- Risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases;
- Risk that the amounts of cash from operations together with amounts available under our DIP Credit Agreement will not be sufficient to fund our operations;
- Management of our cash resources, particularly in light of our bankruptcy proceedings and our substantial leverage;
- Restrictions imposed by, and as a result of, our bankruptcy proceedings and our substantial leverage;
- Additional outbreaks of avian influenza or other diseases, either in our own flocks or elsewhere, affecting our ability to conduct our operations and/or demand for our poultry products;
- Contamination of our products, which has previously and can in the future lead to product liability claims and product recalls;
- Exposure to risks related to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate;
- Changes in laws or regulations affecting our operations or the application thereof;
- New immigration legislation or increased enforcement efforts in connection with existing immigration legislation that cause our costs of business to increase, cause us to change the way in which we do business or otherwise disrupt our operations;
- Competitive factors and pricing pressures or the loss of one or more of our largest customers;



- Currency exchange rate fluctuations, trade barriers, exchange controls, expropriation and other risks associated with foreign operations;
- Disruptions in international markets and distribution channels; and
- The impact of uncertainties of litigation as well as other risks described herein and under "Risk Factors" in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes to information contained in previous filings or communications. Although we have attempted to list comprehensively these important cautionary risk factors, we must caution investors and others that other factors may in the future prove to be important and affecting our business or results of operations.

#### ITEM 4. CONTROLS AND PROCEDURES

As of March 28, 2009, an evaluation was performed under the supervision and with the participation of the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that information we are required to disclose in our reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, the Company's management, including the Senior Chairman of the Board, Chief Executive Officer and Chief Financial Officer, identified no other change in the Company's internal control over financial reporting that occurred during the Company's quarter ended March 28, 2009 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM I. LEGAL PROCEEDINGS

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business or the actions described below.

On December 17, 2008, Kenneth Patterson filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie "Ken" Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants. The complaint, brought pursuant to section 502 of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1132, alleges that the individual defendants breached fiduciary duties to participants and beneficiaries of the Pilgrim's Pride Stock Investment Plan (the "Plan"), as administered through the Retirement Savings Plan, and the To-Ricos, Inc. Employee Savings and Retirement Plan (collectively, and together with the Plan, the "Plans"). The allegations in the complaint are similar to the allegations made in the Alcaldo case discussed below. Patterson further alleges that he purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held Company stock or units in Pilgrim's Pride stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees, an order for equitable restitution and the imposition of constructive trust, and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in this action, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On January 23, 2009, Patterson filed a motion to consolidate the subsequently filed, similar Smalls case, which is discussed below, into this action. The defendants filed a dispositive motion seeking to dismiss the Patterson complaint on April 16, 2009. Mr. Patterson will be allowed a response brief under the rules, and the defendants will be allowed to submit a reply.

On January 2, 2009, Denise M. Smalls filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants. The complaint and the allegations are similar to those filed in the Patterson case discussed above. Smalls alleges that she purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held Company stock or units in Pilgrim's Pride stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees; an order for equitable restitution and the imposition of constructive trust; and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in these actions, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company, including the Patterson case and the Smalls case. The motion was denied without prejudice to the Company commencing an adversary proceeding as to each of these cases in order to seek the relief requested. The Company intends to defend vigorously against the merits of these actions and any attempts by either Mr. Patterson or Ms. Smalls to certify a class action.

On October 29, 2008, Ronald Alcaldo filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, styled Ronald Alcaldo, Individually and On Behalf of All Others Similarly Situated v. Pilgrim's Pride Corporation, et al, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler (collectively, the "Defendants"). The complaint alleges that the Defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by allegedly failing to disclose that "(a) the Company's hedges to protect it from adverse changes in costs were not working and in fact were harming the Company's results more than helping; (b) the Company's inability to continue to use illegal workers would adversely affect its margins; (c) the Company's financial results were continuing to deteriorate rather than improve, such that the Company's capital structure was threatened; (d) the Company was in a much worse position than its competitors due to its inability to raise prices for consumers sufficient to offset cost increases, whereas its competitors were able to raise prices to offset higher costs affecting the industry; and (e) the Company had not made sufficient changes to its business to succeed in the more difficult industry conditions." Mr. Alcaldo further alleges that he purports to represent a class of all persons or entities who acquired the common stock of the Company from May 5, 2008 through September 24, 2008. The complaint seeks unspecified injunctive relief and an unspecified amount of damages. On November 21, 2008, the Defendants filed a Motion to Dismiss and Brief in Support Thereof, asserting that Alcaldo failed to identify any misleading statements, failed to adequately plead scienter against any Defendants, failed to adequately plead loss causation, failed to adequately plead controlling person liability and, as to the omissions that Alcaldo alleged the Defendants

did not make, the Defendants alleged that the omissions were, in fact, disclosed. On December 1, 2008, the Company filed a Notice of Suggestion of Bankruptcy. The Company intends to defend vigorously against the merits of this action. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

On November 13, 2008, Chad Howes filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The allegations in the Howes complaint are identical to those in the Acaldo complaint, as are the class allegations and relief sought. The defendants have not yet been served with the Howes complaint.

On December 29, 2008, the Pennsylvania Public Fund Group filed a Motion to Consolidate the Howes case into the Acaldo case, and filed a Motion to be Appointed Lead Plaintiff and for Approval of Lead Plaintiff's Selection of Lead Counsel and Liaison Counsel. Also on that date, the Pilgrim's Investor Group (of which Acaldo is a part) filed a Motion to Consolidate the two cases and a Motion to be Appointed Lead Plaintiff. The Pilgrim's Investor Group has subsequently filed a Notice of Non-Opposition to the Pennsylvania Public Fund Group's Motion for Appointment of Lead Plaintiff. Chad Howes did not seek to be appointed Lead Plaintiff.

The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company, including the Acaldo case and the Howes case. The motion was denied without prejudice to the Company commencing an adversary proceeding as to each of these cases in order to seek the relief requested. No discovery has commenced in either the Acaldo case or the Howes case, and neither case has been set for trial. The Company intends to defend vigorously against the merits of these actions and any attempts by the lead plaintiff to certify a class action. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

The Wage and Hour Division of the US Department of Labor conducted an industry-wide investigation to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, employees have brought claims against the Company. The claims filed against the Company as of the date of this report include: "Juan Garcia, et al. v. Pilgrim's Pride Corporation, a/k/a Wampler Foods, Inc.", filed in Pennsylvania state court on January 27, 2006 and subsequently removed to the US District Court for the Eastern District of Pennsylvania; "Esperanza Moya, et al. v. Pilgrim's Pride Corporation and Maxi Staff, LLC", filed March 23, 2006 in the Eastern District of Pennsylvania; "Barry Antee, et al. v. Pilgrim's Pride Corporation" filed April 20, 2006 in the Eastern District of Texas; "Stephania Aaron, et al. v. Pilgrim's Pride Corporation" filed August 22, 2006 in the Western District of Arkansas; "Salvador Aguilar, et al. v. Pilgrim's Pride Corporation" filed August 23, 2006 in the Northern District of Alabama; "Benford v. Pilgrim's Pride Corporation" filed November 2, 2006 in the Northern District of Alabama; "Porter v. Pilgrim's Pride Corporation" filed December 7, 2006 in the Eastern District of

Tennessee; "Freida Brown, et al v. Pilgrim's Pride Corporation" filed March 14, 2007 in the Middle District of Georgia, Athens Division; "Roy Menser, et al v. Pilgrim's Pride Corporation" filed February 28, 2007 in the Western District of Paducah, Kentucky; "Victor Manuel Hernandez v. Pilgrim's Pride Corporation" filed January 30, 2007 in the Northern District of Georgia, Rome Division; "Angela Allen et al v. Pilgrim's Pride Corporation" filed March 27, 2007 in United States District Court, Middle District of Georgia, Athens Division; Daisy Hammond and Felicia Pope v. Pilgrim's Pride Corporation, in the Gainesville Division, Northern District of Georgia, filed on June 6, 2007; Gary Price v. Pilgrim's Pride Corporation, in the US District Court for the Northern District of Georgia, Atlanta Division, filed on May 21, 2007; Kristin Roebuck et al v. Pilgrim's Pride Corporation, in the US District Court, Athens, Georgia, Middle District, filed on May 23, 2007; and Elaine Chao v. Pilgrim's Pride Corporation, in the US District Court, Dallas, Texas, Northern District, filed on August 6, 2007. The plaintiffs generally purport to bring a collective action for unpaid wages, unpaid overtime wages, liquidated damages, costs, attorneys' fees, and declaratory and/or injunctive relief and generally allege that they are not paid for the time it takes to either clear security, walk to their respective workstations, don and doff protective clothing, and/or sanitize clothing and equipment. The presiding judge in the consolidated action in El Dorado issued an initial Case Management order on July 9, 2007. Plaintiffs' counsel filed a Consolidated Amended Complaint and the parties filed a Joint Rule 26(f) Report. A complete scheduling order has not been issued, and discovery has not yet commenced. On March 13, 2008, the Court issued an opinion and order finding that plaintiffs and potential class members are similarly situated and conditionally certifying the class for a collective action. On May 14, 2008, the Court issued its order modifying and approving the court-authorized notice for current and former employees to opt into the class. Persons who choose to opt into the class were to do so within 90 days after the date on which the first notice was mailed. The opt-in period is now closed. As of October 2, 2008, approximately 12,605 plaintiffs had opted into the class.

Plaintiffs recently moved the court for leave to amend the consolidated complaint to add certain Company officers. The Company filed a Notice of Suggestion of Bankruptcy before any response to that motion was filed. The court has not yet ruled on the plaintiffs' motion. Likewise, the court has not issued an order in response to the Company's notice. The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company, including this lawsuit. The motion was denied without prejudice to the Company, commencing an adversary proceeding as to this case in order to seek the relief requested in the motion. The Company intends to assert a vigorous defense to the litigation. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

As of the date of this report, the following suits have been filed against Gold Kist, now merged into Pilgrim's Pride Corporation, which make one or more of the allegations referenced above: Merrell v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Gainesville Division, filed on December 21, 2006; Harris v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Newnan Division, filed on December 21, 2006; Blanke v. Gold Kist, Inc., in the US District Court for the Southern District of Georgia, Waycross Division, filed on December 21, 2006; Clarke v. Gold Kist, Inc., in the US District Court for the Middle District of Georgia, Athens Division, filed on December 21, 2006; Atchison v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 3, 2006; Carlisle v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 2, 2006; Benbow v. Gold Kist, Inc., in the US District Court for the District of South Carolina, Columbia Division, filed on October 2, 2006; Bonds v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Northwestern Division, filed on October 2, 2006. On April 23, 2007, Pilgrim's filed a Motion to Transfer and Consolidate with the Judicial Panel on Multidistrict Litigation ("JPML") requesting that all of the pending Gold Kist cases be consolidated into one case. Pilgrim's Pride withdrew its Motion subject to the Plaintiffs' counsel's agreement to consolidate the seven separate actions into the pending Benbow case by dismissing those lawsuits and refiling/consolidating them into the Benbow action. Motions to Dismiss have been filed in all of the pending seven cases, and all of these cases have been formally dismissed. Pursuant to an agreement between the parties, which was approved by Court-order on June 6, 2007, these cases have been consolidated with the Benbow case. On that date, Plaintiffs were authorized to send notice to individuals regarding the pending lawsuits and were instructed that individuals had three months to file consents to opting in as plaintiffs in the consolidated cases. The opt-in period is now closed. To date, there are approximately 3,006 named plaintiffs and opt-in plaintiffs in the consolidated cases. The parties have engaged in limited discovery. The Company recently filed a Notice of Suggestion of Bankruptcy. In response, the Court issued an order formally staying the case. The Company intends to assert a vigorous defense to the litigation. The likelihood of an unfavorable outcome or the amount or range of ultimate liability cannot be determined at this time.

We are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

#### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2008 Annual Report on Form 10-K, including under the heading "Item 1A. Risk Factors", which, along with risks disclosed in this report, are all the risks we believe could materially affect the Company's business, financial condition or future results. These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

ITEM 5. OTHER INFORMATION

As previously announced, the Company filed voluntary Chapter 11 petitions on December 1, 2008. The Chapter 11 cases are being jointly administered under case number 08-45664. The Company has and intends to continue to post important information about the restructuring, including monthly operating reports and other financial information required by the Bankruptcy Court, on the Company's website [www.pilgrimspride.com](http://www.pilgrimspride.com) under the "Investors-Reorganization" caption. The Company intends to use its website as a means of complying with its disclosure obligations under SEC Regulation FD. Information is also available via the Company's restructuring information line at (888) 830-4659.



ITEM 6. EXHIBITS

- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 2004 filed on November 24, 2004).
- 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
- 4.1 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.2 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.3 Form of 7 5/8% Senior Note due 2015 (included in Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.4 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.5 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 Form of 8 3/8% Subordinated Note due 2017 (included in Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Amended and Restated Post-Petition Credit Agreement dated December 31, 2008, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 6, 2009).

- 10.2 Amended and Restated Employment Agreement dated January 27, 2009, between the Company and Don Jackson (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 30, 2009).<sup>Ⓞ</sup>
- 10.3 First Amendment to Amended and Restated Post-Petition Credit Agreement, dated as of February 26, 2009, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 4, 2009).
- 12 Computation of Ratio of Earnings to Fixed Charges.\*
- 31.1 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
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\* Filed herewith

<sup>Ⓞ</sup> Represents a management contract or compensation plan arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PILGRIM'S PRIDE CORPORATION

Date: May 7, 2009

/s/ Richard A. Cogdill  
Richard A. Cogdill  
Chief Financial and Accounting Officer

EXHIBIT INDEX

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\* Filed herewith

<sup>Ⓞ</sup> Represents a management contract or compensation plan arrangement



# PILGRIMS PRIDE CORP

4845 US HWY. 271 N.  
PITTSBURG, TX 75686  
903. 434.1402

## 10-Q

PILGRIM'S PRIDE CORPORATION 10-Q 3RD QTR FY 09  
Filed on 08/03/2009 - Period: 07/27/2009  
File Number 001-09273



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)



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

For the quarterly period ended June 27, 2009

OR



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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 1-9273



**PILGRIM'S PRIDE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

75-1285071

(I.R.S. Employer  
Identification No.)

4845 US Hwy 271 N, Pittsburg, TX

(Address of principal executive offices)

75686-0093

(Zip code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)



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

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

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

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

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

Number of shares outstanding of the issuer's common stock, as of July 31, 2009, was 74,055,733.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
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Item 6.	<u>Exhibits</u>

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 27, 2009	September 27, 2008
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 101,179	\$ 61,553
Restricted cash and cash equivalents	6,677	—
Investment in available-for-sale securities	5,902	10,439
Trade accounts and other receivables, less allowance for doubtful accounts	291,207	144,156
Inventories	798,846	1,036,163
Income taxes receivable	23,645	21,656
Current deferred income taxes	18,297	54,312
Prepaid expenses and other current assets	45,326	122,441
<b>Total current assets</b>	<b>1,291,079</b>	<b>1,450,720</b>
Investment in available-for-sale securities	60,181	55,854
Other assets	88,663	51,768
Identified intangible assets, net	59,725	67,363
Property, plant and equipment, net	1,531,582	1,673,004
	<b>\$ 3,031,230</b>	<b>\$ 3,298,709</b>
Liabilities and stockholders' equity:		
Liabilities not subject to compromise:		
Accounts payable	171,578	378,887
Accrued expenses	303,052	448,823
Current maturities of long-term debt	—	1,874,469
Liabilities of discontinued business	1,470	10,783
<b>Total current liabilities</b>	<b>476,100</b>	<b>2,712,962</b>
Long-term debt, less current maturities	42,133	67,514
Deferred income taxes	40,826	80,755
Other long-term liabilities	89,952	85,737
<b>Total liabilities not subject to compromise</b>	<b>649,011</b>	<b>2,946,968</b>
Liabilities subject to compromise	2,264,932	—
Common stock	740	740
Additional paid-in capital	646,824	646,922
Accumulated deficit	(551,602)	(317,082)
Accumulated other comprehensive income	21,325	21,161
<b>Total stockholders' equity</b>	<b>117,287</b>	<b>351,741</b>
	<b>\$ 3,031,230</b>	<b>\$ 3,298,709</b>

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

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

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands, except share and per share data)			
Net sales	\$ 1,776,813	\$ 2,207,476	\$ 5,351,906	\$ 6,355,623
Cost of sales	1,593,399	2,154,265	5,153,646	6,220,688
Asset impairment	—	—	—	12,022
Gross profit	183,414	53,211	198,260	122,913
Selling, general and administrative expenses	74,818	92,291	245,611	299,283
Restructuring items, net	—	3,451	1,987	9,120
Total costs and expenses	1,668,217	2,250,007	5,401,244	6,541,113
Operating income (loss)	108,596	(42,531)	(49,338)	(185,490)
Other expense (income):				
Interest expense	38,843	35,500	124,855	99,212
Interest income	(488)	(646)	(3,843)	(1,600)
Miscellaneous, net	(332)	(590)	(4,008)	(4,614)
Total other expense, net	38,023	34,264	117,004	92,998
Income (loss) from continuing operations before reorganization items and income taxes	70,573	(76,795)	(166,342)	(278,488)
Reorganization items	16,779	—	65,383	—
Income (loss) from continuing operations before income taxes	53,794	(76,795)	(231,725)	(278,488)
Income tax expense (benefit)	555	(28,451)	3,180	(85,477)
Income (loss) from continuing operations	53,239	(48,344)	(234,905)	(193,011)
Income (loss) from operation of discontinued business, net of tax	—	(4,437)	599	(4,450)
Gain on sale of discontinued business, net of tax	—	—	—	903
Net income (loss)	\$ 53,239	\$ (52,781)	\$ (234,306)	\$ (196,558)
Income (loss) per common share—basic and diluted:				
Continuing operations	\$ 0.72	\$ (0.69)	\$ (3.17)	\$ (2.85)
Discontinued business	—	(0.06)	0.01	(0.05)
Net income (loss)	\$ 0.72	\$ (0.75)	\$ (3.16)	\$ (2.90)
Dividends declared per common share	\$ —	\$ 0.0225	\$ —	\$ 0.0675
Weighted average shares outstanding	74,055,733	70,182,107	74,055,733	67,764,524

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

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

	Nine Months Ended	
	June 27, 2009	June 28, 2008
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (234,306)	\$ (196,558)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	177,832	176,802
Asset impairment	5,409	12,022
Gain on property disposals	(20,893)	(4,141)
Deferred income tax benefit	—	(87,489)
Changes in operating assets and liabilities:		
Accounts and other receivables	(121,375)	12,106
Inventories	250,905	(175,458)
Prepaid expenses and other current assets	24,131	(30,196)
Accounts payable and accrued expenses	(133,721)	(37,661)
Income taxes receivable, net	898	(5,089)
Other	(1,889)	(16,337)
Cash used in operating activities	(53,009)	(351,999)
Cash flows for investing activities:		
Acquisitions of property, plant and equipment	(65,605)	(97,641)
Purchases of investment securities	(16,088)	(25,491)
Proceeds from sale or maturity of investment securities	12,244	18,770
Change in restricted cash and cash equivalents	(12,931)	—
Proceeds from property disposals	78,225	19,217
Cash used in investing activities	(4,155)	(85,145)
Cash flows from financing activities:		
Proceeds from short-term notes payable	430,817	—
Payments on short-term notes payable	(430,817)	—
Proceeds from long-term debt	831,250	1,217,020
Payments on long-term debt	(719,740)	(1,016,983)
Proceeds from sale of common stock	—	177,220
Change in outstanding cash management obligations	(11,172)	57,678
Cash dividends paid	—	(4,661)
Other	(808)	(5,457)
Cash provided by financing activities	99,530	424,817
Effect of exchange rate changes on cash and cash equivalents	(2,740)	230
Increase (decrease) in cash and cash equivalents	39,626	(12,097)
Cash and cash equivalents, beginning of period	61,553	66,168
Cash and cash equivalents, end of period	\$ 101,179	\$ 54,071

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A—CHAPTER 11 PROCEEDINGS

Chapter 11 Bankruptcy Filings

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

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

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

Chapter 11 Process

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

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

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA"). Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Note G—Trade Accounts and Other Receivables.

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges, certain closure costs and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both \$348.6 million as there were no outstanding borrowings under the Credit Agreement.

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

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



On July 15, 2009, the Company entered into a Third Amendment (the "Amendment") to the DIP Credit Agreement. The Amendment is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from \$450 million to \$350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

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

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

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

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

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

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

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

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

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

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

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

#### Going Concern Matters

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

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. During the first nine months of 2009, the Company closed seven processing complexes, closed two distribution centers and reduced or consolidated production at various other facilities throughout the US. These actions will ultimately result in a reduction of approximately 6,390 production positions and 440 non-production positions.

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

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

Condensed Combined Financial Information of Debtors

The following unaudited condensed combined financial information is presented for the Debtors as of June 27, 2009 or for the nine months then ended (in thousands):

Balance Sheet Information:	
Current assets	\$ 1,323,810
Identified intangible assets	59,725
Investment in subsidiaries	325,856
Property, plant and equipment, net	1,405,151
Other assets	94,223
<b>Total assets</b>	<b>\$ 3,208,765</b>
Current liabilities	\$ 360,630
Long-term liabilities	292,294
Liabilities not subject to compromise	652,924
Liabilities subject to compromise	2,264,932
<b>Total liabilities</b>	<b>2,917,856</b>
Stockholders' equity	290,909
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,208,765</b>
Statement of Operations Information:	
Net sales	\$ 4,864,864
Gross profit	147,710
Operating loss	(80,238)
Reorganization items	62,441
Income from equity affiliates	20,320
Net loss	(234,306)
Statement of Cash Flows Information:	
Cash used in operating activities	\$ (101,943)
Cash used in investing activities	(19,320)
Cash provided by financing activities	145,745

## NOTE B—BASIS OF PRESENTATION

### Consolidated Financial Statements

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

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

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

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

In accordance with accounting principles generally accepted in the United States ("GAAP"), we have applied American Institute of Certified Public Accountants' Statement of Position ("SOP") 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, in preparing the Consolidated Financial Statements. SOP 90-7 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings are recorded in reorganization items on the accompanying Consolidated Statements of Operations. In addition, pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the Consolidated Balance Sheet at June 27, 2009 in Liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts. For information on the bankruptcy reorganization process, see Note A—Chapter 11 Proceedings. For information on the pre-petition obligations that may be impacted by the bankruptcy reorganization process, see Note L—Liabilities Subject to Compromise.

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

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

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

The Company has evaluated subsequent events through the issuance of these financial statements, which occurred on July 31, 2009.

#### Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position ("FSP") FAS157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. On September 28, 2008, the Company adopted the portion of SFAS No. 157 that was not delayed, and since the Company's existing fair value measurements are consistent with the guidance of SFAS No. 157, the partial adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements. The adoption of the deferred portion of SFAS No. 157 on September 27, 2009 is not expected to have a material impact on the Company's consolidated financial statements.

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

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

See Note F—Investments and Fair Value Measurements for expanded disclosures about the Company's investments and the fair value measurements used for the Company's financial instruments.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of SFAS No. 165 for the Company's interim reporting period ending on June 27, 2009 did not have a material impact on the Company's consolidated financial statements.

#### Accounting Pronouncements Issued But Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This Statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects by establishing principles and requirements for how the acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company must apply prospectively SFAS No. 141(R) to business combinations for which the acquisition date occurs during or subsequent to the first quarter of 2010. The impact that adoption of SFAS No. 141(R) will have on the Company's financial condition, results of operations and cash flows is dependent upon many factors. Such factors would include, among others, the fair values of the assets acquired and the liabilities assumed in any applicable business combination, the amount of any costs the Company would incur to effect any applicable business combination, and the amount of any restructuring costs the Company expected but was not obligated to incur as the result of any applicable business combination. Upon emergence from bankruptcy, the Company could qualify for fresh start accounting under SOP 90-7. Fresh start accounting incorporates many of the concepts of purchase accounting; therefore, SFAS No. 141(R) could directly affect the Company's accounting upon emergence. We cannot accurately predict the effect SFAS No. 141(R) will have on future acquisitions at this time.

In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This Statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for how that reporting entity (i) identifies, labels and presents in its consolidated statement of financial position the ownership interests in subsidiaries held by parties other than itself, (ii) identifies and presents on the face of its consolidated statement of operations the amount of consolidated net income attributable to itself and to the noncontrolling interest, (iii) accounts for changes in its ownership interest while it retains a controlling financial interest in a subsidiary, (iv) initially measures any retained noncontrolling equity investment in a subsidiary that is deconsolidated, and (v) discloses other information about its interests and the interests of the noncontrolling owners. The Company must apply prospectively the accounting requirements of SFAS No. 160 in the first quarter of 2010. The Company should also apply retroactively the presentation and

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disclosure requirements of the Statement for all periods presented at that time. The Company does not expect the adoption of SFAS No. 160 will have a material impact on its financial position, financial performance or cash flows.

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

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

NOTE C—REORGANIZATION ITEMS

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

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

- (a) Professional fees directly related to the reorganization include post-petition fees associated with advisors to the Debtors, the statutory committee of unsecured creditors and certain secured creditors. Professional fees are estimated by the Debtors and will be reconciled to actual invoices when received.
- (b) Net gain on asset disposals includes (1) gain on the sale of the Farmerville, LA processing facility and (2) loss on the sale of the Company's interest in a hog farming joint venture.
- (c) Other expenses includes (1) severance, grower pay, live flock impairment, inventory disposal costs, equipment relocation costs and other shutdown costs related to the closed processing facilities in Douglas, Georgia; El Dorado, Arkansas; Farmerville, Louisiana; Franconia, Pennsylvania and Dalton, Georgia, (2) severance costs related to the closed distribution center in Houston, Texas, the February 2009 Operations management reduction-in-force ("RIF") action, the April 2009 non-production employee RIF action, and reduced or consolidated production at various facilities throughout the US, (3) asset impairment costs related to the closed processing facility in Dalton, Georgia, and (4) fees associated with the termination of the RPA on December 3, 2008.

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

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

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

#### NOTE D—DISCONTINUED BUSINESS

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

For a period of time, we continued to generate operating results and cash flows associated with our discontinued turkey business. These activities were transitional in nature. We entered into a short-term co-pack agreement with the acquirer of the discontinued turkey business under which they processed turkeys for sale to our customers through the end of 2008. We had no remaining turkey inventories as of June 27, 2009 and did not recognize additional operating results related to our discontinued turkey business during the third quarter of 2009. For the period of time until we have collected the remaining outstanding receivables and settled outstanding liabilities, we will continue to report cash flows associated with our discontinued turkey business, although at a substantially reduced level.

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

No debt was assumed by the acquirer of the discontinued turkey business or required to be repaid as a result of the disposal transaction. We elected to allocate to the discontinued turkey operation other consolidated interest that was not directly attributable to or related to other operations of the Company based on the ratio of net assets to be sold or discontinued to the sum of the total net assets of the Company plus consolidated debt. Interest allocated to the discontinued business in the three and nine months ended June 28, 2008 totaled \$0.5 million and \$1.1 million, respectively. We did not allocate interest to the discontinued business in the three and nine months ended June 27, 2009.

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

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

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

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

#### NOTE E—RESTRUCTURING ACTIVITIES

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

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

Significant actions that occurred from the second quarter of 2009 through the third quarter of 2009 were approved by the Bankruptcy Court, when required under the Bankruptcy Code, as part of the Company's reorganization efforts. These actions began in January 2009 and were completed in June 2009. Significant actions that occurred from the second quarter of 2008 through the first quarter of 2009 were approved by the Company's Board of Directors as part of a plan intended to curtail losses amid record-high costs for corn, soybean meal and other feed ingredients and an oversupply of chicken in the US. These actions began in March 2008 and were completed in June 2009. These restructuring activities resulted in the elimination of approximately 6,390 production positions and 440 non-production positions.

Results of operations for the three and nine months ended June 27, 2009 included restructuring charges totaling \$6.6 million and \$23.1 million, respectively, related to these actions. All of these restructuring charges, with the exception of certain lease continuation costs, have resulted in cash expenditures or will result in cash expenditures within one year. Results of operations for the three and nine months ended June 27, 2009 also included adjustments totaling \$2.1 million and \$7.4 million, respectively, that reduced the accrued costs. These adjustments included the elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2008 restructuring actions primarily during the first and second quarters of 2009, elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2009 reorganization actions primarily during the third quarter of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009, the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for several of the 2008 restructuring actions during the second quarter of 2009 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for the Douglas, Georgia reorganization action during the third quarter of 2009.

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

	Accrued Lease Obligation	Accrued Severance and Employee Retention	Accrued Other Restructuring Costs (In thousands)	Restructuring- Related Inventory Reserves	Total
September 27, 2008	\$ 4,466	\$ 2,694	\$ 5,651	\$ 1,212	\$ 14,023
Accruals	372	3,647	60	—	4,079
Payment / Disposal	(330)	(4,288)	(705)	(715)	(6,038)
Adjustments	—	(1,269)	—	—	(1,269)
December 27, 2008	4,508	784	5,006	497	10,795
Accruals	—	7,484	—	4,937	12,421
Payment / Disposal	(98)	(129)	(309)	(285)	(821)
Adjustments	(2,574)	(446)	(790)	(212)	(4,022)
March 28, 2009	\$ 1,836	\$ 7,693	\$ 3,907	\$ 4,937	\$ 18,373
Accruals	—	4,538	2,000	92	6,630
Payment / Disposal	(97)	(4,147)	(1,739)	(3,760)	(9,743)
Adjustments	—	(1,604)	(541)	—	(2,145)
June 27, 2009	\$ 1,739	\$ 6,480	\$ 3,627	\$ 1,269	\$ 13,115

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

The Company recognized impairment charges totaling \$5.4 million during the third quarter of 2009 to reduce the carrying amounts of certain property, plant and equipment located at a facility closed in 2009 to their estimated fair values. These costs were classified as reorganization items. The Company recognized impairment charges totaling \$12.0 million during the second quarter of 2008 to reduce the carrying amounts of certain property, plant, equipment and other assets located at or related to facilities closed in 2008 to their estimated fair values. Consistent with our previous practice and because management believes the realization of the carrying amounts of the affected assets was directly related to the Company's production activities, the charges were reported as a component of gross profit (loss).

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

NOTE F—FINANCIAL INSTRUMENTS

FSP FAS107-1 and APB 28-1 Disclosures

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

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

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

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

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

FSP FAS115-2 and 124-2 Disclosures

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

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

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

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

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

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

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



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

SFAS No. 157 Disclosures

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

Level 1 Quoted prices in active markets for identical assets or liabilities;  
 1

Level 2 Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 Unobservable inputs, such as discounted cash flow models or valuations.

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

As of June 27, 2009, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash and cash equivalents, short-term investments in available-for-sale securities and long-term investments in available-for-sale securities. Cash equivalents consist of short-term, highly liquid, income-producing investments such as money market funds and other funds that have maturities of 90 days or less which are traded in active markets. Short-term investments in available-for-sale securities consist of short-term, highly liquid, income-producing investments such as municipal debt securities that have maturities of greater than 90 days but less than one year. Long-term investments in available-for-sale securities consist of income-producing investments such as municipal debt securities, corporate debt securities, equity securities and fund-of-funds units that have maturities of greater than one year.

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

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

The following table presents the Company's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 for the nine months ended June 27, 2009:

	Fund of Funds	Auction Rate Securities	Total
	(In thousands)		
Balance at September 27, 2008	\$ 1,197	\$ 2,425	\$ 3,622
Included in other comprehensive income	(210)	—	(210)
Balance at December 27, 2008	\$ 987	\$ 2,425	\$ 3,412
Sale of securities	—	(2,425)	(2,425)
Included in other comprehensive income	17	—	17
Balance at March 28, 2009	1,004	—	1,004
Included in other comprehensive income	29	—	29
Balance at June 27, 2009	<u>\$ 1,033</u>	<u>\$ —</u>	<u>\$ 1,033</u>

NOTE G—TRADE ACCOUNTS AND OTHER RECEIVABLES

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

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

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement. The loss recognized on the sold receivables during the nine months ended June 27, 2009 was not material.

NOTE H—INVENTORIES

Inventories consisted of the following components:

	June 27, 2009	September 27, 2008
(In thousands)		
<b>Chicken:</b>		
Live chicken and hens	\$ 302,725	\$ 385,511
Feed and eggs	200,786	265,959
Finished chicken products	275,427	365,123
<b>Total chicken inventories</b>	<b>778,938</b>	<b>1,016,593</b>
<b>Other products:</b>		
Commercial feed, table eggs, retail farm store and other	\$ 16,676	\$ 13,358
Distribution inventories (other than chicken products)	3,232	6,212
<b>Total other products inventories</b>	<b>19,908</b>	<b>19,570</b>
<b>Total inventories</b>	<b>\$ 798,846</b>	<b>\$ 1,036,163</b>

Inventories included a lower-of-cost-or-market allowance of \$26.6 million at September 27, 2008. There was no lower-of-cost-or-market allowance recorded at June 27, 2009.

NOTE I—PROPERTY, PLANT AND EQUIPMENT

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

	June 27, 2009	September 27, 2008
(In thousands)		
Land	\$ 111,086	\$ 111,567
Buildings, machinery and equipment	2,464,682	2,465,608
Autos and trucks	59,603	64,272
Construction-in-progress	64,563	74,307
<b>Property, plant and equipment, gross</b>	<b>2,699,934</b>	<b>2,715,754</b>
<b>Accumulated depreciation</b>	<b>(1,168,352)</b>	<b>(1,042,750)</b>
<b>Property, plant and equipment, net</b>	<b>\$ 1,531,582</b>	<b>\$ 1,673,004</b>

We recognized depreciation expense related to our continuing operations of \$52.6 million and \$56.4 million during the three months ended June 27, 2009 and June 28, 2008, respectively. We recognized depreciation expense related to our continuing operations of \$164.4 million and \$164.6 million during the nine months ended June 27, 2009 and June 28, 2008, respectively. We also recognized depreciation charges related to our discontinued turkey business of \$0.3 million and \$0.7 million during the three and nine months ended June 28, 2008, respectively. We did not incur depreciation charges related to our discontinued turkey business in the three and nine months ended June 27, 2009.

In May 2009, the Company sold its closed processing complex and certain inventories in Farmerville, Louisiana for \$72.3 million. The Company recognized a gain of \$15.0 million on this transaction that is included in Reorganization items, net on its Consolidated Statement of Operations. In June 2009, the Company sold its closed distribution center in Plant City, Florida for \$2.4 million. The Company recognized a loss of \$0.4 million on this transaction that is included in Selling, general and administrative expenses on its Consolidated Statement of Operations.

The Company closed its processing complexes in Douglas, Georgia; El Dorado, Arkansas; Franconia, Pennsylvania and Dalton, Georgia in the third quarter of 2009 and closed its processing complexes in Bossier City, Louisiana and Clinton, Arkansas in the first quarter of 2009. Although the Company has received bids on some of these assets, management has not deemed any of the bids submitted to be acceptable and is not certain whether any bids acceptable to the Company will be received in the future. Management is also not certain that the Board of Directors would determine that it would be in the best interest of the bankruptcy estate to divest of these assets. Management is therefore not certain that it can or will divest of these assets within one year and, accordingly, has not classified them as assets held for sale. The Company continues to depreciate these assets. The Company recognized impairment charges totaling \$5.4 million during the third quarter of 2009 to reduce the carrying amounts of certain idled assets located at the closed processing complex in Dalton, Georgia. At June 27, 2009, the carrying amount of these idled assets was \$91.9 million based on depreciable value of \$145.7 million and accumulated depreciation of \$53.8 million.

The Company currently classifies certain assets related to its closed distribution center in El Paso, Texas as assets held for sale. At June 27, 2009 and September 27, 2008, the Company reported assets held for sale totaling \$0.5 million and \$17.4 million, respectively, in Prepaid expenses and other current assets on its Consolidated Balance Sheets.

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

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

NOTE J—ACCRUED EXPENSES

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

	June 27, 2009	September 27, 2008
	(In thousands)	
Compensation and benefits	\$ 108,219	\$ 118,893
Interest and debt maintenance	11,618	35,488
Self-insurance	95,586	170,787
Other	87,629	123,745
Total accrued expenses	\$ 303,052	\$ 448,823

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

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

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

	Maturity	June 27, 2009	September 27, 2008
		(In thousands)	
Short-term notes payable:			
Post-petition credit facility with notes payable at 8.00% plus the greatest of the facility agent's prime rate, the average federal funds rate plus 0.50%, or LIBOR plus 1.00%	2009	\$ —	\$ —
Long-term debt:			
Senior unsecured notes, at 7.5/8%	2015	\$ 400,000	\$ 400,000
Senior subordinated unsecured notes, at 8 3/8%	2017	250,000	250,000
Secured revolving credit facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%	2013	216,761	181,900
Secured revolving credit facility with notes payable at LIBOR plus 1.65% to LIBOR plus 3.125%	2011	42,133	51,613
Secured revolving term credit facility with four notes payable at LIBOR plus a spread, one note payable at 7.34% and one note payable at 7.56%	2016	1,126,398	1,035,250
Other	Various	33,720	23,220
Long-term debt		2,069,012	1,941,983
Current maturities of long-term debt		—	(1,874,469)
Long-term debt subject to compromise		(2,026,879)	—
Long-term debt, less current maturities		\$ 42,133	\$ 67,514

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the US Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement.

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see Note G—Trade Accounts and Other Receivables.

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

The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both \$348.6 million as there were no outstanding borrowings under the Credit Agreement.

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

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

On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from \$450 million to \$350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

During the first nine months of 2009, the Company borrowed \$616.7 million and repaid \$525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed \$214.6 million and repaid \$179.7 million under the secured revolving credit facility expiring in 2013, borrowed and repaid \$430.8 million under the DIP Credit Agreement and repaid \$14.5 million under other facilities.

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement, which expires in 2011, to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the "Secured Debt") as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the "Unsecured Debt"). The aggregate principal amount owed under these credit agreements and notes was approximately \$2,000.2 million as of June 27, 2009. As a result of such event of default, all obligations under these agreements became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling \$3.3 million and \$7.7 million in the three and nine months ended June 27, 2009.



In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds were held by the trustee of the bonds until we drew on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee had the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

#### NOTE L—LIABILITIES SUBJECT TO COMPROMISE

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

In accordance with SOP 90-7, debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing debt issuance costs to the extent necessary to report the debt at this allowed amount). Through May 2, 2009, the Bankruptcy Court had not classified any of the Debtors' outstanding debt as allowed claims. Therefore, the Company has classified the Debtors' outstanding debt as Liabilities subject to compromise on the Consolidated Balance Sheet. The Company has not adjusted debt issuance costs, totaling \$20.9 million at June 27, 2009, related to the Debtors' outstanding debt. The Company may be required to expense these amounts or a portion thereof as reorganization items if the Bankruptcy Court ultimately determines that a portion of the debt is subject to compromise.

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

Liabilities subject to compromise consisted of the following:

	June 27, 2009
	(In thousands)
Accounts payable	\$ 85,617
Accrued expenses	148,479
Secured long-term debt	1,369,883
Unsecured long-term debt	656,996
Other long-term liabilities	3,957
<b>Total liabilities subject to compromise</b>	<b>\$ 2,264,932</b>

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

NOTE M—INCOME TAXES

The Company recorded income tax expense of \$3.2 million, a (1%) effective tax rate, for the nine months ended June 27, 2009, compared to an income tax benefit of \$85.5 million, a 31% effective tax rate, for the nine months ended June 28, 2008. The income tax benefit decreased from the prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset may not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. We evaluate the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred income tax assets will be recovered, the valuation allowance will be reduced. As of June 27, 2009, the total value of such valuation allowances was \$154.1 million.

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

During the next twelve months, it is reasonably possible that certain tax settlements and claims by US federal, state or local taxing authorities could materially change unrecognized tax benefits either because our tax positions are sustained or because the Company agrees to their disallowance. An estimate of the reasonably possible range cannot be made at this time. A material change in unrecognized tax benefits could materially affect the Company's effective tax rate.

NOTE N—COMPREHENSIVE LOSS

Components of comprehensive loss include:

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands)			
Net income (loss)	\$ 53,239	\$ (52,781)	\$ (234,306)	\$ (196,558)
Unrealized gain (loss) on securities, net of income tax impact (a)	737	(491)	1,193	(1,177)
Amortization of pension and other postretirement benefits plans periodic costs, net of income tax impact (b)	(1,029)	—	(1,029)	—
<b>Comprehensive income (loss)</b>	<b>\$ 52,947</b>	<b>\$ (53,272)</b>	<b>\$ (234,142)</b>	<b>\$ (197,735)</b>

- (a) The Company allocated income tax expense (benefit) of approximately \$395, \$(267), \$640 and \$(640) in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively, to unrealized gain (loss) on securities.
- (b) The Company allocated income tax benefit of approximately \$624 in both the third quarter of 2009 and the first nine months of 2009 to amortization of pension and other postretirement benefits plans periodic costs.

NOTE O—DERIVATIVE FINANCIAL INSTRUMENTS

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

NOTE P—RELATED PARTY TRANSACTIONS

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

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

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands)			
Loan guaranty fees	\$ —	\$ 1,304	\$ 1,473	\$ 3,431
Contract grower pay	\$ 250	\$ 259	\$ 733	\$ 779
Lease payments on commercial egg property	\$ 188	\$ 188	\$ 563	\$ 563
Other sales to major stockholder	\$ 158	\$ 205	\$ 499	\$ 557
Lease payments and operating expenses on airplane	\$ —	\$ 116	\$ 68	\$ 351

Pilgrim Interests, Ltd., an entity related to Lonnie "Bo" Pilgrim, guarantees a portion of the Company's debt obligations. In consideration of such guarantees, the Company has paid Pilgrim Interests, Ltd. a quarterly fee equal to 0.25% of one-half of the average aggregate outstanding balance of such guaranteed debt. Pursuant to the terms of the DIP Credit Agreement, the Company may no longer pay any loan guarantee fees without the consent of the lenders party thereto. At June 27, 2009, the Company had classified accrued loan guaranty fees totaling \$5.3 million as Liabilities subject to compromise.

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

#### NOTE Q—COMMITMENTS AND CONTINGENCIES

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as based upon the likelihood of payment, the fair value of such indemnities would not have a material impact on our financial condition, results of operations and cash flows.

At June 27, 2009, the Company was party to outstanding standby letters of credit totaling \$68.3 million that affected the amount of funds available for borrowing under the secured revolving credit facility expiring in 2013. At the same date, the Company was not a party to any outstanding letters of credit that would have affected the amount of funds available for borrowing under the DIP Credit Agreement.

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

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

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

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

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

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

NOTE R—BUSINESS SEGMENTS

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

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands)			
<b>Net sales to customers:</b>				
<b>Chicken:</b>				
United States	\$ 1,516,468	\$ 1,829,163	\$ 4,579,725	\$ 5,280,272
Mexico	126,270	154,165	371,386	402,475
<b>Total chicken</b>	<b>1,642,738</b>	<b>1,983,328</b>	<b>4,951,111</b>	<b>5,682,747</b>
<b>Other Products:</b>				
United States	127,422	214,135	377,790	648,431
Mexico	6,653	10,013	23,005	24,445
<b>Total other products</b>	<b>134,075</b>	<b>224,148</b>	<b>400,795</b>	<b>672,876</b>
	<b>\$ 1,776,813</b>	<b>\$ 2,207,476</b>	<b>\$ 5,351,906</b>	<b>\$ 6,355,623</b>
<b>Operating income (loss):</b>				
<b>Chicken:</b>				
United States	\$ 72,976	\$ (65,425)	\$ (94,731)	\$ (241,081)
Mexico	18,046	6,964	21,900	(848)
<b>Total chicken</b>	<b>91,022</b>	<b>(58,461)</b>	<b>(72,831)</b>	<b>(241,929)</b>
<b>Other products:</b>				
United States	16,487	18,366	20,661	74,601
Mexico	1,087	1,015	4,819	2,980
<b>Total other products</b>	<b>17,574</b>	<b>19,381</b>	<b>25,480</b>	<b>77,581</b>
Asset impairment	—	—	—	(12,022)
Restructuring items, net	—	(3,451)	(1,987)	(9,120)
	<b>\$ 108,596</b>	<b>\$ (42,531)</b>	<b>\$ (49,338)</b>	<b>\$ (185,490)</b>
<b>Depreciation and amortization<sup>(a)(b)(c)</sup>:</b>				
<b>Chicken:</b>				
United States	\$ 51,245	\$ 54,292	\$ 159,203	\$ 158,624
Mexico	2,383	2,587	7,207	7,831
<b>Total chicken</b>	<b>53,628</b>	<b>56,879</b>	<b>166,410</b>	<b>166,455</b>
<b>Other products:</b>				
United States	3,475	3,565	11,251	9,465
Mexico	58	62	171	187
<b>Total other products</b>	<b>3,533</b>	<b>3,627</b>	<b>11,422</b>	<b>9,652</b>
	<b>\$ 57,161</b>	<b>\$ 60,506</b>	<b>\$ 177,832</b>	<b>\$ 176,107</b>

- (a) Includes amortization of capitalized financing costs of \$1.8 million, \$1.7 million, \$5.1 million and \$3.8 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.
- (b) Includes amortization of intangible assets of \$2.5 million, \$2.5 million, \$7.6 million and \$7.7 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.
- (c) Excludes depreciation costs incurred by our discontinued turkey business of \$0.7 million during the nine months ended June 28, 2008. Our discontinued turkey business did not incur depreciation costs during the third quarter of 2009, the third quarter of 2008 or the first nine months of 2009.

#### NOTE S—INSURANCE PROCEEDS

On July 21, 2008, a fire in the Mt. Pleasant, Texas protein conversion plant damaged a significant portion of the plant's building, machinery and equipment. During the third quarter of 2009, the Company received \$15.0 million of proceeds that it recognized in cost of sales for insurance recovery related to business interruption costs.

#### NOTE T—SUBSEQUENT EVENT

On July 24, 2009, the Company announced plans to idle its processing plant in Athens, Alabama and one of its two processing plants in Athens, Georgia within 60–75 days as part of its continuing effort to improve capacity utilization and reduce costs. Approximately 640 employees currently employed at the Athens, Alabama processing plant will be affected by this restructuring action. The Company expects to be able to offer positions at other facilities to many of these employees. The Company also expects to be able to offer positions to most of the approximately 330 employees at the Athens, Georgia processing plant by the time that plant is idled. The Company does not expect to significantly reduce the number of contract growers with which it conducts business in either Athens, Alabama or Athens, Georgia as a direct result of these restructuring actions. Most growers will be transitioned to supplying other processing complexes. Since production from these two plants will be consolidated into other processing complexes, these restructuring actions should not result in any decrease in the Company's overall production or in any change in product mix.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Description of the Company

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's Pride," "the Company," "we," "us," "our," or similar terms) is one the largest chicken companies in the United States ("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.

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

### Executive Summary

The Company experienced an improved business environment in the third quarter of 2009. We reported net income of \$53.2 million, or \$0.72 per common share, for the quarter, which included gross profit of \$183.4 million. For the nine months ended June 27, 2009, we experienced a net loss of \$234.3 million, or \$3.16 per common share, which included gross profit of \$198.3 million. As of June 27, 2009, the Company's accumulated deficit aggregated \$551.6 million. During the first nine months of 2009, the Company used \$53.0 million of cash in operations. At June 27, 2009, we had cash and cash equivalents totaling \$101.2 million. In addition, the Company incurred reorganization costs of \$16.8 million in the third quarter of 2009 and \$65.4 million in the first nine months of 2009. These costs included (i) severance and other costs related to post-petition facility closures and reduction-in-force ("RIF") actions, (ii) financing fees associated with the Amended and Restated Post-Petition Credit Agreement dated December 31, 2008, as amended (the "DIP Credit Agreement"), among the Company, as borrower, the Subsidiaries, as guarantors, Bank of Montreal, as agent (the "DIP Agent"), and the lenders party thereto, (iii) professional fees charged for post-petition reorganization services and (iv) a loss recognized on the sale of the Company's interest in a hog farming joint venture, (v) asset impairment costs related to a closed processing complex in Dalton, Georgia, and (vi) fees related to the termination of the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA").

These costs were partially offset by a gain recognized on the sale of the Company's closed processing complex in Farmerville, Louisiana.

Market prices for feed ingredients decreased in the first nine months of 2009 after reaching unprecedented levels in the last half of 2008. Market prices for feed ingredients remain volatile, however, and there can be no assurance that they will not increase materially. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any hedging arrangements or other derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes. However, on July 15, 2009, the Company entered into a Third Amendment (the "Amendment") to the DIP Credit Agreement. Subject to the approval of the Bankruptcy Court, the Amendment allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

The following table compares the highest and lowest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the current year and previous four years:

	Corn		Soybean Meal	
	Highest Price	Lowest Price	Highest Price	Lowest Price
2009:				
Third Quarter	\$ 4.50	\$ 3.40	\$ 433.40	\$ 278.00
Second Quarter	4.28	3.38	326.00	264.80
First Quarter	5.24	2.90	302.00	237.00
2008:				
Fourth Quarter	7.50	4.86	455.50	312.00
Third Quarter	7.63	5.58	427.90	302.50
Second Quarter	5.70	4.49	384.50	302.00
First Quarter	4.57	3.35	341.50	254.10
2007	4.37	2.62	286.50	160.20
2006	2.68	1.86	204.50	155.80
2005	2.63	1.91	238.00	146.60

Market prices for chicken products have stabilized since the end of 2008 but remain below levels sufficient to offset the generally higher costs of feed ingredients. Many producers within the industry, including Pilgrim's Pride, cut production in 2008 and 2009 in an effort to correct the general oversupply of chicken in the US. Until recently, these production cuts had a positive effect on prices for chicken products. Despite these production cuts, there can be no assurance that chicken prices will not decrease due to such factors as weakening demand for breast meat from food service providers and lower prices for chicken leg quarters in the export market as a result of weakness in world economies and restrictive credit markets.

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

#### Chapter 11 Bankruptcy Filings

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

Effective December 1, 2008, the New York Stock Exchange 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."

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

## Chapter 11 Process

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

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

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see "Liquidity and Capital Resources."

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

The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both \$348.6 million as there were no outstanding borrowings under the Credit Agreement.

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

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

On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from \$450 million to \$350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

For additional information on the DIP Credit Agreement, see "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 ordered pre-petition but received from and after the Petition Date and other business-related payments necessary to maintain the operation of our businesses. The Debtors have retained, subject to Bankruptcy Court approval, legal and financial professionals to advise the Debtors on the bankruptcy proceedings

and certain other "ordinary course" professionals. From time to time, the Debtors may seek Bankruptcy Court approval for the retention of additional professionals.

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

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

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

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

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

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

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

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

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

#### Going Concern Matters

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

Management is addressing the Company's ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. During the first nine months of 2009, the Company closed seven processing complexes, closed two distribution centers and reduced or consolidated production at various other facilities throughout the US. These actions will ultimately result in a reduction of approximately 6,390 production positions and 440 non-production positions.

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

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



Business Segments

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

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
(In thousands)				
Net sales to customers:				
Chicken:				
United States	\$ 1,516,468	\$ 1,829,163	\$ 4,579,725	\$ 5,280,272
Mexico	126,270	154,165	371,386	402,475
Total chicken	1,642,738	1,983,328	4,951,111	5,682,747
Other Products:				
United States	127,422	214,135	377,790	648,431
Mexico	6,653	10,013	23,005	24,445
Total other products	134,075	224,148	400,795	672,876
	\$ 1,776,813	\$ 2,207,476	\$ 5,351,906	\$ 6,355,623
Operating income (loss):				
Chicken:				
United States	\$ 72,976	\$ (65,425)	\$ (94,731)	\$ (241,081)
Mexico	18,046	6,964	21,900	(848)
Total chicken	91,022	(58,461)	(72,831)	(241,929)
Other products:				
United States	16,487	18,366	20,661	74,601
Mexico	1,087	1,015	4,819	2,980
Total other products	17,574	19,381	25,480	77,581
Asset impairment				(12,022)
Restructuring items, net		(3,451)	(1,987)	(9,120)
	\$ 108,596	\$ (42,531)	\$ (49,338)	\$ (185,490)
Depreciation and amortization(a)(b)(c)				
Chicken:				
United States	\$ 51,245	\$ 54,292	\$ 159,203	\$ 158,624
Mexico	2,383	2,587	7,207	7,831
Total chicken	53,628	56,879	166,410	166,455
Other products:				
United States	3,475	3,565	11,251	9,465
Mexico	58	62	171	187
Total other products	3,533	3,627	11,422	9,652
	\$ 57,161	\$ 60,506	\$ 177,832	\$ 176,107

- (a) Includes amortization of capitalized financing costs of \$1.8 million, \$1.7 million, \$5.1 million and \$3.8 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.
- (b) Includes amortization of intangible assets of \$2.5 million, \$2.5 million, \$7.6 million and \$7.7 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.
- (c) Excludes depreciation costs incurred by our discontinued turkey business of \$0.7 million during the nine months ended June 28, 2008. Our discontinued turkey business did not incur depreciation costs during the third quarter of 2009, the third quarter of 2008 or the first nine months of 2009.

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

	Percentage of Net Sales			
	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Net sales	100.0%	100.0 %	100.0 %	100.0 %
Cost of sales	89.7%	97.6 %	96.3 %	97.9 %
Asset impairment	—%	—%	—%	0.2%
Gross profit	10.3%	2.4 %	3.7 %	1.9 %
Selling, general and administrative ("SG&A") expenses	4.2%	4.2 %	4.6 %	4.7 %
Restructuring charges, net	—%	0.2 %	—%	0.1 %
Operating income (loss)	6.1%	(2.0)%	(0.9)%	(2.9)%
Interest expense	2.2%	1.6 %	2.3 %	1.6 %
Reorganization items, net	0.9%	—%	1.2 %	—%
Income (loss) from continuing operations before income taxes	3.0%	(3.5) %	(4.3) %	(4.4) %
Income (loss) from continuing operations	3.0%	(2.2) %	(4.4) %	(3.0) %
Net income (loss)	3.0%	(2.4) %	(4.4) %	(3.1) %

Results of Operations

Third Quarter 2009 Compared to Third Quarter 2008

Net sales. Net sales for the third quarter of 2009 decreased \$430.7 million, or 19.5%, from the third quarter of 2008. The following table provides net sales information:

Source	Third Quarter	Change from Third Quarter 2008	
	2009	Amount	Percent
(In thousands, except percent data)			
<b>Chicken:</b>			
United States	\$ 1,516,468	\$ (312,695)	(17.1)% (a)
Mexico	126,270	(27,895)	(18.1)% (b)
<b>Total chicken</b>	<b>1,642,738</b>	<b>(340,590)</b>	<b>(17.2)%</b>
<b>Other products:</b>			
United States	127,422	(86,713)	(40.5)% (c)
Mexico	6,653	(3,360)	(33.6)%
<b>Total other products</b>	<b>134,075</b>	<b>(90,073)</b>	<b>(40.2)%</b>
<b>Total net sales</b>	<b>\$ 1,776,813</b>	<b>\$ (430,663)</b>	<b>(19.5)%</b>

- (a) US chicken sales generated in the third quarter of 2009 decreased 17.1% from US chicken sales generated in the third quarter of 2008. Sales volume decreased 17.0% primarily because of previously announced production cutbacks and subsequent reorganization efforts. Net revenue per pound sold decreased 0.1% from the prior year.
- (b) Mexico chicken sales generated in the third quarter of 2009 decreased 18.1% from Mexico chicken sales generated in the third quarter of 2008. Sales volume decreased 11.3% from the prior year because of production cutbacks. Net revenue per pound sold decreased 7.8% from the prior year primarily because of the devaluation of the Mexican peso against the US dollar in 2009.
- (c) US sales of other products generated in the third quarter of 2009 decreased 40.5% from US sales of other products generated in the third quarter of 2008 mainly as the result of reduced sales volumes on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered at the Mt. Pleasant, Texas protein conversion facility in late 2008 and subsequent reorganization efforts. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

Gross profit. Gross profit increased by \$130.2 million, or 244.7%, from \$53.2 million in the third quarter of 2008 to \$183.4 million in the third quarter of 2009. The following table provides gross profit information.

Components	Third Quarter 2009	Change from		Percent of Net Sales	
		Third Quarter 2008		Third Quarter	Third Quarter
		Amount	Percent	2009	2008
(In thousands, except percent data)					
Net sales	\$ 1,776,813	\$ (430,663)	(19.5) %	100.0%	100.0%
Cost of sales	1,593,399	(560,866)	(26.0) %	89.7%	97.6% (a)
Gross profit	\$ 183,414	\$ 130,203	244.7 %	10.3%	2.4% (b)

- (a) Cost of sales incurred by the US operations during the third quarter of 2009 decreased \$521.4 million from cost of sales incurred by the US operations during the third quarter of 2008. This decrease occurred primarily because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the quarter partially offset by an aggregate net gain of \$97.2 million recognized by the Company during the third quarter of 2008 on derivative financial instruments. The Company did not participate in any derivative financial instrument transactions in the third quarter of 2009. Cost of sales incurred by the Mexico operations during the third quarter of 2009 decreased \$39.5 million from cost of sales incurred by the Mexico operations during the third quarter of 2008 primarily because of decreased net sales and decreased feed ingredient costs.
- (b) Gross profit as a percent of net sales generated in the third quarter of 2009 increased 7.9 percentage points from gross profit as a percent of sales generated in the third quarter of 2008 primarily because of the cost-savings impact of production cutbacks and decreased feed ingredient costs experienced during the quarter.

Operating income (loss). Operating income results increased by \$151.1 million, or 355.3%, from an operating loss of \$42.5 million incurred in the third quarter of 2008 to operating income of \$108.6 million generated in the third quarter of 2009. The following tables provide operating income (loss) information.

Source	Third Quarter 2009	Change from Third Quarter 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ 72,976	\$ 138,401	211.5 %
Mexico	18,046	11,082	159.1 %
Total chicken	91,022	149,483	255.7 %
Other products:			
United States	16,487	(1,879)	(10.2) %
Mexico	1,087	72	7.1 %
Total other products	17,574	(1,807)	(9.3) %
Restructuring items, net	—	3,451	100.0 %
Total operating income	\$ 108,596	\$ 151,127	355.3 %

Components	Change from			Percent of Net Sales	
	Third Quarter	Third Quarter 2008		Third Quarter	Third Quarter
	2009	Amount	Percent	2009	2008
(In thousands, except percentages)					
Gross profit	\$ 183,414	\$ 130,203	244.7 %	10.3%	2.4 %
SG&A expenses	74,818	(17,473)	(18.9)%	4.2%	4.2 % (a)
Restructuring items, net	—	(3,451)	(100.0)%	—%	0.2 % (b)
Operating income	<u>\$ 108,596</u>	<u>\$ 151,127</u>	355.3 %	<u>6.1%</u>	<u>(2.0) % (c)</u>

- (a) SG&A expenses incurred by the US operations during the third quarter of 2009 decreased 17.0% from SG&A expenses incurred by the US operations during the third quarter of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.
- (b) The Company incurred severance and other facility closure costs related to restructuring actions taken in the third quarter of 2008.
- (c) Operating income as a percent of net sales generated in the third quarter of 2009 increased 8.1 percentage points from operating loss as a percent of sales incurred in the third quarter of 2008 primarily because of the improvement in gross profit performance and the positive impact of 2009 restructuring actions on SG&A expenses.

Interest expense. Interest expense increased 9.4% to \$38.8 million in the third quarter of 2009 from \$35.5 million in the third quarter of 2008 primarily because of increased borrowings and increased interest rates recognized on several of the non-public credit facilities. As a percent of net sales, interest expense in the third quarter of 2009 increased to 2.2% from 1.6% in the third quarter of 2008.

Reorganization items. The Company incurred net reorganization costs of \$16.8 million in the third quarter of 2009. Costs included severance and other costs related to post-petition facility closures and RIF actions, professional fees charged for post-petition reorganization services, asset impairment costs related to a closed processing complex in Dalton, Georgia and a loss recognized on the sale of the Company's interest in a hog farming joint venture. These costs were partially offset by a gain recognized on the sale of the Company's closed processing complex in Farmerville, Louisiana.

Income taxes. The Company recorded income tax expense of \$0.6 million for the three months ended June 27, 2009, compared to an income tax benefit of \$28.5 million for the three months ended June 28, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

Loss from operation of discontinued business. The Company incurred a loss from the operation of its discontinued turkey business of \$7.1 million (\$4.4 million, net of tax) in the third quarter of 2008. Net sales generated by the discontinued turkey business in the third quarter of 2008 were \$14.8 million. There were no net sales or operating results generated by the discontinued turkey business in the third quarter of 2009.

First Nine Months of 2009 Compared to First Nine Months of 2008

Net sales. Net sales for the first nine months of 2009 decreased \$1,003.7 million, or 15.8%, from the first nine months of 2008. The following table provides net sales information:

Source	First Nine Months	Change from First Nine Months 2008	
	2009	Amount	Percent
(In thousands, except percent data)			
<b>Chicken:</b>			
United States	\$ 4,579,725	\$ (700,547)	(13.3) % (a)
Mexico	371,386	(31,089)	(7.7) % (b)
<b>Total chicken</b>	<b>4,951,111</b>	<b>(731,636)</b>	<b>(12.9) %</b>
<b>Other products:</b>			
United States	377,790	(270,641)	(41.7) % (c)
Mexico	23,005	(1,440)	(5.9) %
<b>Total other products</b>	<b>400,795</b>	<b>(272,081)</b>	<b>(40.4) %</b>
<b>Total net sales</b>	<b>\$ 5,351,906</b>	<b>\$ (1,003,717)</b>	<b>(15.8) %</b>

- (a) US chicken sales generated in the first nine months of 2009 decreased 13.3% from US chicken sales generated in the first nine months of 2008. Sales volume decreased 14.1% primarily because of previously announced production cutbacks and subsequent reorganization efforts. Net revenue per pound sold increased 0.8% from the prior year primarily because of increased sales prices on a majority of product lines.
- (b) Mexico chicken sales generated in the first nine months of 2009 decreased 7.7% from Mexico chicken sales generated in the first nine months of 2008. Sales volume decreased 2.0% from the prior year because of production cutbacks. Net revenue per pound sold decreased 5.9% from the prior year primarily because of the devaluation of the Mexican peso against the US dollar in 2009.
- (c) US sales of other products generated in the first nine months of 2009 decreased 41.7% from US sales of other products generated in the first nine months of 2008 mainly as the result of reduced sales volumes protein conversion products partially offset by increased sales prices. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered at the Mt. Pleasant, Texas protein conversion facility in late 2008 and subsequent reorganization efforts. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

Gross profit. Gross profit increased by \$75.3 million, or 61.3%, from \$122.9 million in the first nine months of 2008 to \$198.3 million in the first nine months of 2009. The following table provides gross profit information.

Components	First Nine Months 2009	Change from First Nine Months 2008		Percent of Net Sales	
		Amount	Percent	First Nine Months	First Nine Months
				2009	2008
(In thousands, except percent data)					
Net sales	\$ 5,351,906	\$ (1,003,717)	(15.8) %	100.0%	100.0%
Cost of sales	5,153,646	(1,067,042)	(17.2) %	96.3%	97.9% (a)
Asset impairment		(12,022)	(100.0) %	—%	0.2% (b)
Gross profit (loss)	\$ 198,260	\$ 75,347	61.3 %	3.7%	1.9% (c)

- (a) Cost of sales incurred by the US operations during the first nine months of 2009 decreased \$1,015.0 million from cost of sales incurred by the US operations during the first nine months of 2008. This decrease occurred primarily because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the first nine months of 2009 offset by an aggregate net loss of \$21.4 million which the Company recognized during the first quarter of 2009 on derivative financial instruments executed in previous quarters to manage its exposure to changes in corn and soybean meal prices. The Company recognized an aggregate net gain of \$110.4 million during the first nine months of 2008 on derivative financial instruments. Cost of sales incurred by the Mexico operations during the first nine months of 2009 decreased \$52.0 million from cost of sales incurred by the Mexico operations during the first nine months of 2008 primarily because of decreased net sales and decreased feed ingredient costs.
- (b) The Company recognized inventory and property, plant and equipment impairment costs related to restructuring actions taken in the first nine months of 2008.
- (c) Gross profit as a percent of net sales generated in the first nine months of 2009 increased 1.8 percentage points from gross profit as a percent of sales generated in the first nine months of 2008 primarily because of the cost-savings impact of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices experienced during the first nine months of 2009.

Operating income (loss). Operating loss incurred decreased \$136.2 million, or 73.4%, from \$185.5 million for the first nine months of 2008 to \$49.3 million for the first nine months of 2009. The following tables provide operating income (loss) information:

Source	First Nine Months 2009	Change from First Nine Months 2008	
		Amount	Percent
(In thousands, except percent data)			
Chicken:			
United States	\$ (94,731)	\$ 146,350	60.7 %
Mexico	21,900	22,748	2,682.5 %
Total chicken	(72,831)	169,098	69.9 %
Other products:			
United States	20,661	(53,940)	(72.3) %
Mexico	4,819	1,839	61.7 %
Total other products	25,480	(52,101)	(67.2) %
Asset impairment		12,022	100.0 %
Restructuring items, net	(1,987)	7,133	78.2 %
Total operating loss	\$ (49,338)	\$ 136,152	73.4 %

Components	First Nine	Change from		Percent of Net Sales	
	Months 2009	First Nine Months 2008 Amount	Percent	First Nine Months 2009	First Nine Months 2008
(In thousands, except percent data)					
Gross profit	\$ 198,260	\$ 75,347	61.3%	3.7%	1.9%
SG&A expenses	245,611	(53,672)	(17.9) %	4.6%	4.7% (a)
Restructuring items, net	1,987	(7,133)	(78.2) %	—%	0.1% (b)
Operating loss	\$ (49,338)	\$ 136,152	73.4%	(0.9) %	(2.9) % (c)

(a) SG&A expenses incurred by the US operations during the first nine months of 2009 decreased 17.4% from SG&A expenses incurred by the US operations during the first nine months of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.

(b) The Company incurred charges totaling \$2.0 million, composed primarily of severance costs, related to restructuring actions taken in the first nine months of 2009 partially offset by the elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2008 restructuring actions during the second quarter of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for several of the 2008 restructuring actions during the second quarter of 2009. The Company incurred charges totaling \$9.1 million, composed of severance and facility shutdown costs, related to restructuring actions taken in the first nine months of 2008.

(c) Operating loss as a percent of net sales incurred in the first nine months of 2009 decreased 2.0 percentage points from operating loss as a percent of sales incurred in the first nine months of 2008 primarily because of improvement in gross profit performance.

Interest expense. Interest expense increased 25.8% to \$124.9 million in the first nine months of 2009 from \$99.2 million in the first nine months of 2008 primarily because of increased borrowings and increased interest rates recognized on several of the non-public credit facilities. As a percent of net sales, interest expense in the first nine months of 2009 increased to 2.3% from 1.6% in the first nine months of 2008.

Miscellaneous, net. Consolidated miscellaneous income decreased from \$4.6 million in the first nine months of 2008 to \$4.0 million in the first nine months of 2009 primarily because of unfavorable currency exchange results due to a decrease in the average exchange rate between the Mexican peso and the US dollar during those two periods.

Reorganization items. The Company incurred reorganization costs of \$65.4 million in the first nine months of 2009. These costs included (i) severance and other costs related to post-petition facility closures and RIF actions, (ii) financing fees associated with the DIP Credit Agreement, (iii) professional fees charged for post-petition reorganization services, (iv) fees related to the termination of the RPA, (v) asset impairment costs related to a closed processing complex in Dalton, Georgia and (vi) a loss recognized on the sale of the Company's interest in a hog farming joint venture. These costs were partially offset by a gain recognized on the sale of the Company's closed processing complex in Farmerville, Louisiana.

Income taxes. The Company recorded income tax expense of \$3.2 million for the nine months ended June 27, 2009, compared to an income tax benefit of \$85.5 million for the nine months ended June 28, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.



Pilgrim's Pride Corporation

June 27, 2009

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Loss from operation of discontinued business. The Company generated income from the operation of its discontinued turkey business of \$1.0 million (\$0.6 million, net of tax) in the first nine months of 2009 compared to a loss of \$7.2 million (\$4.5 million, net of tax) incurred in the first nine months of 2008. Net sales generated by the discontinued turkey business in the first nine months of 2009 and the first nine months of 2008 were \$25.8 million and \$70.8 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).

Liquidity and Capital Resources

The following table presents our available sources of liquidity as of June 27, 2009:

Source of Liquidity	Facility Amount	Amount Outstanding (in millions)	Available
Cash and cash equivalents	\$ —	\$ —	\$ 101.2
Investments in available-for-sale securities	—	—	5.9
Debt facilities:			
DIP Credit Agreement expiring 2009	450.0	—	348.6 (a)(b)
Revolving credit facility expiring 2011	42.1	42.1	—

- (a) Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base at June 27, 2009 was \$348.6 million.
- (b) At July 30, 2009, total funds available for borrowing under the DIP Credit Agreement were \$363.0 million and there were no outstanding borrowings under the DIP Credit Agreement. On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. In connection with the Amendment, the Company agreed to reduce the total available Commitments under the DIP Credit Agreement from \$450 million to \$350 million.

At June 27, 2009, the Company had \$216.8 million outstanding under its revolving credit facility expiring in 2013 and \$1,126.4 million outstanding under its revolver/term credit agreement expiring in 2016. At that time, the Company was party to outstanding standby letters of credit totaling \$68.3 million. The filing of the Chapter 11 petitions constituted an event of default under, among other of our debt obligations, the revolving credit facility expiring in 2013 and the revolver/term credit agreement expiring in 2016. Outstanding obligations under these facilities became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. Funds are no longer available for borrowing under these two facilities.

Debt Obligations

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

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement.

The DIP Credit Agreement provides for an aggregate commitment of up to \$450 million, which permits borrowings on a revolving basis. The commitment includes a \$25 million sub-limit for swingline loans and a \$20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see "Off-Balance Sheet Arrangements."

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of \$150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges, certain closure costs and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both \$348.6 million as there were no outstanding borrowings under the Credit Agreement.

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

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

On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from \$450 million to \$350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

During the first nine months of 2009, the Company borrowed \$616.7 million and repaid \$525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed \$214.6 million and repaid \$179.7 million under the secured revolving credit facility expiring in 2013, borrowed and repaid \$430.8 million under the DIP Credit Agreement and repaid \$14.5 million under other facilities.

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the THE Rate, as applicable, plus the Applicable Margin (as those terms are defined

in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and THE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement, which expires in 2011, to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the "Secured Debt") as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the "Unsecured Debt"). The aggregate principal amount owed under these credit agreements and notes was approximately \$2,000.2 million as of June 27, 2009. As a result of such event of default, all obligations under these agreements became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling \$3.3 million and \$7.7 million in the three and nine months ended June 27, 2009.

#### Off-Balance Sheet Arrangements

In June 1999, the Camp County Industrial Development Corporation issued \$25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds were held by the trustee of the bonds until we drew on the proceeds for

the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee had the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity ("SPE") wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The loss recognized on the sold receivables during the nine months ended June 27, 2009 was not material. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as, based upon the likelihood of payment, the fair value of such indemnities would not have a material impact on our financial condition, results of operations and cash flows.

#### Historical Flow of Funds

Cash used in operating activities was \$53.0 million and \$352.0 million for the nine months ended June 27, 2009 and June 28, 2008, respectively. The improvement in cash flows from operating activities was primarily the result of favorable changes in both operating assets and liabilities and deferred tax benefits partially offset by the larger net loss incurred in the first nine months of 2009 as compared to the net loss incurred in the first nine months of 2008.

Our working capital position increased \$2,077.1 million to a surplus of \$815.0 million and a current ratio of 2.71 at June 27, 2009 compared with a deficit of \$1,262.2 million and a current ratio of 0.53 at September 27, 2008 primarily because of a significant decrease in current maturities of long-term debt and the other working capital changes discussed below. Current maturities of long-term debt decreased from \$1,874.5 million at September 27, 2008 to \$0 at June 27, 2009 as most long-term debt was classified as liabilities subject to compromise because of the bankruptcy proceedings.

Trade accounts and other receivables increased \$147.0 million, or 102.0%, to \$291.2 million at June 27, 2009 from \$144.2 million at September 27, 2008. This increase resulted primarily from our repurchase of receivables originally sold under the RPA. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

Inventories decreased \$237.4 million, or 22.9%, to \$798.8 million at June 27, 2009 from \$1,036.2 million at September 27, 2008 due to lower feed ingredient prices and several restructuring actions taken by the Company. These actions include the Company's previously announced production cutbacks and plant closures that resulted in reduced live flock inventories, feed inventories, and packaging and other supplies inventories. Additionally, the Company made a concerted effort early in the year to sell down surplus inventories in order to generate cash.

Prepaid expenses and other current assets decreased \$77.1 million, or 63.0%, to \$45.3 million at June 27, 2009 from \$122.4 million at September 27, 2008. This decrease occurred primarily because the Company suspended the use of derivative financial instruments in response to its current financial condition. We settled all outstanding derivative financial instruments in October 2008. The Company also sold inventory and collected receivables related to its discontinued turkey business during this period.

Accounts payable decreased \$207.3 million, or 54.7%, to \$171.6 million at June 27, 2009 from \$378.9 million at September 27, 2008. This decrease occurred for various reasons, including lower feed ingredient prices, the impact of the Company's previously announced production cutbacks, the elimination of a negative book cash position maintained with one of the Company's cash management providers and because certain vendors with which the Company previously maintained open trade accounts required prepayments for all future deliveries after learning about the Company's current financial condition. At June 27, 2009, we classified accounts payable totaling \$85.6 million as liabilities subject to compromise because of the bankruptcy.

Accrued expenses decreased \$145.7 million, or 32.5%, to \$303.1 million at June 27, 2009 from \$448.8 million at September 27, 2008. This decrease resulted from reductions in the accrued balances for marketing, restructuring, severance and utilities costs and the transition from a self-insured workers compensation program in prior years to a fully-insured, prepaid workers compensation program in the current year. At June 27, 2009, we classified accrued expenses totaling \$148.5 million as liabilities subject to compromise because of the bankruptcy.

Cash used in investing activities was \$4.2 million and \$85.1 million for the first nine months of 2009 and 2008, respectively. Capital expenditures of \$65.6 million and \$97.6 million for the nine months ended June 27, 2009 and June 28, 2008, respectively, were primarily incurred for the routine replacement of equipment and to improve efficiencies and reduce costs. Capital expenditures for 2009 will be restricted to routine replacement of equipment in our current operations in addition to important projects we began in 2008 and cannot exceed \$150 million as allowed under the terms of the DIP Credit Agreement. Cash was used to purchase investment securities totaling \$16.1 million and \$25.5 million in the first nine months of 2009 and 2008, respectively. Cash proceeds in the first nine months of 2009 and 2008 from the sale or maturity of investment securities were \$12.2 million and \$18.8 million, respectively. Restricted cash increased \$12.9 million in the first nine months of 2009 to collateralize self insurance obligations. Cash proceeds from property disposals for the nine months ended June 27, 2009 and June 28, 2008 were \$78.2 million and \$19.2 million, respectively.

Cash provided by financing activities was \$99.5 million and \$424.8 million for the nine months ended June 27, 2009 and June 28, 2008, respectively. Cash proceeds in the first nine months of 2009 from short-term notes payable were \$430.8 million. Cash was used to repay short-term notes payable totaling \$430.8 million in the first nine months of 2009. Cash proceeds in the first nine months of 2009 and 2008 from long-term debt were \$831.2 million and \$1,217.0 million, respectively. Cash was used to repay long-term debt totaling \$719.7 million and \$1,017.0 million in the first nine months of 2009 and 2008, respectively. Cash proceeds in the first nine months of 2008 from the sale of common stock were \$177.2 million. Cash used in the first nine months of 2009 because of a decrease in outstanding cash management obligations totaled \$11.2 million. Cash provided in the first nine months of 2008 because of an increase in outstanding cash management obligations totaled \$57.7 million. Cash was used for other financing activities totaling \$0.8 million in the first nine months of 2009. Cash was used to pay dividends totaling \$4.7 million in the first nine months of 2008.

The only material changes during the nine months ended June 27, 2009, outside the ordinary course of business, in the specified contractual commitments presented in the Company's Annual Report on Form 10-K for 2008 were the borrowings and repayments under the DIP Credit Agreement. At June 27, 2009, there were no outstanding borrowings under the DIP Credit Agreement.



#### Accounting Pronouncements

Discussion regarding our recent adoption Financial Accounting Standards Board Staff Position ("FSP") FAS157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13; FSP FAS157-2, Effective Date of FASB Statement No. 157; FSP FAS157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active; FSP FAS157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly; FSP FAS115-2 and FAS124-2, Recognition and Presentation of Other-Than-Temporary Impairments; FSP FAS107-1 and APB28-1, Interim Disclosures about Fair Value of Financial Instruments, and Statement of Financial Accounting Standards ("SFAS") No. 165, Subsequent Events, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

Discussion regarding our pending adoption of SFAS No. 141(R), Business Combinations; SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51; FSP FAS142-3, Determination of the Useful Life of Intangible Assets, and FSP FAS132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

#### Critical Accounting Policies

During the nine months ended June 27, 2009, (i) we did not change any of our existing critical accounting policies, (ii) no existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate, and (iii) there were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Feed Ingredients

We purchase certain commodities, primarily corn and soybean meal, for use as ingredients in the feed we either sell commercially or consume in our live operations. As a result, our earnings are affected by changes in the price and availability of such feed ingredients. In the past, we have from time to time attempted to minimize our exposure to the changing price and availability of such feed ingredients using various techniques, including, but not limited to, (i) executing purchase agreements with suppliers for future physical delivery of feed ingredients at established prices and (ii) purchasing or selling derivative financial instruments such as futures and options. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes. However, on July 15, 2009, the Company entered into the Amendment to the DIP Credit Agreement. Subject to the approval of the Bankruptcy Court, the Amendment allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than \$100 million in margin requirements with respect to all such non-customer hedging contracts.

Market risk is estimated as a hypothetical 10% increase in the weighted-average cost of our primary feed ingredients as of June 27, 2009. Based on our feed consumption during the nine months ended June 27, 2009, such an increase would have resulted in an increase to cost of sales of approximately \$183.8 million, excluding the impact of any feed ingredients derivative financial instruments in that period. A 10% change in ending feed ingredients inventories at June 27, 2009 would be \$7.1 million, excluding any potential impact on the production costs of our chicken inventories.

#### Interest Rates

Our earnings are affected by changes in interest rates due to the impact those changes have on our variable-rate debt instruments and the fair value of our fixed-rate debt instruments. Our variable-rate debt instruments represented 57.0% of our long-term debt at June 27, 2009. Holding other variables constant, including levels of indebtedness, a 25-basis-points increase in interest rates would have increased our interest expense by \$2.2 million for the first nine months of 2009. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate long-term debt at June 27, 2009.

Due to our current financial condition, our public fixed-rate debt is trading at a discount. As of June 27, 2009, the most recent trades of our 7 5/8% senior unsecured notes and 8 3/8% senior subordinated unsecured notes were executed at average prices of \$88.19 per \$100.00 par value and \$78.30 per \$100.00 par value, respectively. Management expects that the fair value of our non-public fixed-rate debt has also decreased, but cannot reliably estimate the fair value at this time. Interest rate risk related to the Company's investments is not significant.

#### Foreign Currency

Our earnings are also affected by foreign currency exchange rate fluctuations related to the Mexican peso net monetary position of our Mexican 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 currency exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the US. However, we currently anticipate that the 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 Mexican subsidiaries denominated in Mexican pesos, was a gain of \$0.3 million in the first nine months of 2009 and a gain of \$0.7 million in the first nine months of 2008. The average exchange rates for the first nine months of 2009 and 2008 were 13.57 Mexican pesos to 1 US dollar and 10.71 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.

#### Quality of Investments

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

#### Forward Looking Statements

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "project," "plan," "imply," "intend," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include the following:

- Matters affecting the chicken industry generally, including fluctuations in the commodity prices of feed ingredients and chicken;
- Actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings;
- Our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
- Our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
- Our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain contracts that are critical to our operations;
- Our ability to retain management and other key individuals;
- Our ability to successfully enter into, obtain court approval of and close anticipated asset sales under Section 363 of the Bankruptcy Code;
- Certain of the Company's restructuring activities, including selling assets, idling facilities, reducing production and reducing workforce, will result in reduced capacities and sales volumes and may have a disproportionate impact on our income relative to the cost savings.
- Risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases;
- Risk that the amounts of cash from operations together with amounts available under our DIP Credit Agreement will not be sufficient to fund our operations;
- Management of our cash resources, particularly in light of our bankruptcy proceedings and our substantial leverage;
- Restrictions imposed by, and as a result of, our bankruptcy proceedings and our substantial leverage;
- Additional outbreaks of avian influenza or other diseases, either in our own flocks or elsewhere, affecting our ability to conduct our operations and/or demand for our poultry products;
- Contamination of our products, which has previously and can in the future lead to product liability claims and product recalls;
- Exposure to risks related to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate;
- Changes in laws or regulations affecting our operations or the application thereof;
- New immigration legislation or increased enforcement efforts in connection with existing immigration legislation that cause our costs of business to increase, cause us to change the way in which we do business or otherwise disrupt our operations;
- Competitive factors and pricing pressures or the loss of one or more of our largest customers;

- Currency exchange rate fluctuations, trade barriers, exchange controls, expropriation and other risks associated with foreign operations;
- Disruptions in international markets and distribution channels; and
- The impact of uncertainties of litigation as well as other risks described herein and under "Risk Factors" in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes to information contained in previous filings or communications. Although we have attempted to list comprehensively these important cautionary risk factors, we must caution investors and others that other factors may in the future prove to be important and affecting our business or results of operations.

#### ITEM 4. CONTROLS AND PROCEDURES

As of June 27, 2009, an evaluation was performed under the supervision and with the participation of the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that information we are required to disclose in our reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, the Company's management, including the Senior Chairman of the Board, Chief Executive Officer and Chief Financial Officer, identified no change in the Company's internal control over financial reporting that occurred during the Company's quarter ended June 27, 2009 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business or the actions described below.

On June 1, 2009, approximately 555 former and current independent contract broiler growers, their spouses and poultry farms filed an adversary proceeding against the Company in the Bankruptcy Court. In the adversary proceeding, the plaintiffs assert claims against the Company for: (1) violations of sections 202(a), (b) and (e), 7 U.S.C. § 192 of the Packers and Stockyards Act, 1921; (2) intentional infliction of emotional distress; (3) violations of the Texas Deceptive Trade Practices Act; (4) promissory estoppel; (5) simple fraud; and (6) fraud by non-disclosure. In response to the adversary proceeding, the Company has filed, among other things, a motion seeking dismissal of the claims. Assuming this lawsuit, or a portion thereof, is permitted to proceed forward, the Company intends to vigorously defend against the merits of the adversary proceeding. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

On December 17, 2008, Kenneth Patterson filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie "Ken" Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants (the "Patterson Action"). The complaint, brought pursuant to section 502 of the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1132, alleges that the individual defendants breached fiduciary duties to participants and beneficiaries of the Pilgrim's Pride Stock Investment Plan (the "Plan"), as administered through the Retirement Savings Plan, and the To-Ricos, Inc. Employee Savings and Retirement Plan (collectively, and together with the Plan, the "Plans"). The allegations in the complaint are similar to the allegations made in the Acaldo case discussed below. Patterson further alleges that he purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held the Company's common stock or units in the Company's common stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees, an order for equitable restitution and the imposition of constructive trust, and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in this action, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in

good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On January 23, 2009, Patterson filed a motion to consolidate the subsequently filed, similar Smalls case, which is discussed below, into this action. The defendants filed a dispositive motion seeking to dismiss the Patterson complaint on April 16, 2009. The motion remains pending.

On January 2, 2009, Denise M. Smalls filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim's Pride Compensation Committee and other unnamed defendants (the "Smalls Action"). The complaint and the allegations are similar to those filed in the Patterson case discussed above. Smalls alleges that she purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held the Company's common stock or units in the Company's common stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants' individual accounts as benefits due in proportion to the accounts' diminution in value, attorneys' fees; an order for equitable restitution and the imposition of constructive trust; and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in these actions, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On July 9, 2009, the defendants filed a dispositive motion seeking to dismiss the complaint.

On July 20, 2009, the Court entered an order consolidating the Smalls Action and the Patterson Action. The Company intends to defend vigorously against the merits of these actions and any attempts by either Mr. Patterson or Ms. Smalls to certify a class action.

On October 29, 2008, Ronald Acaldo filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The Complaint alleged that the Company and the individual defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by allegedly failing to disclose that "(a) the Company's hedges to protect it from adverse changes in costs were not working and in fact were harming the Company's results more than helping; (b) the Company's inability to continue to use illegal workers would adversely affect its margins; (c) the Company's financial results were continuing to deteriorate rather than improve, such that the Company's capital structure was threatened; (d) the Company was in a much worse position than its competitors due to its inability to raise prices for consumers sufficient to offset cost increases, whereas its competitors were able to raise prices to offset higher costs affecting the industry; and (e) the Company had not made sufficient changes to its business to succeed in the more difficult industry conditions." Mr. Acaldo further alleged that he purports to represent a class of all persons or entities who acquired the common stock of the Company from May 5, 2008 through September 24, 2008. The Complaint sought unspecified injunctive relief and an unspecified amount of damages.



On November 21, 2008, defendants filed a Motion to Dismiss and Brief in Support Thereof, asserting that plaintiff failed to identify any misleading statements, failed to adequately plead scienter against any defendants, failed to adequately plead loss causation, failed to adequately plead controlling person liability and, as to the omissions that plaintiff alleged defendants did not make, defendants alleged that the omissions were, in fact, disclosed.

On November 13, 2008, Chad Howes filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The allegations in the Howes Complaint are identical to those in the Acaldo Complaint, as are the class allegations and relief sought. The defendants were never served with the Howes Complaint.

On May 14, 2009, the Court consolidated the Acaldo and Howes cases and renamed the style of the case, "In re: Pilgrim's Pride Corporation Securities Litigation." On May 21, 2009, the Court granted the Pennsylvania Public Fund Group's Motion for Appointment of Lead Plaintiff. Thereafter, on June 26, 2009, the lead plaintiff filed a Consolidated (and amended) Complaint. The Consolidated Complaint dismissed the Company and Clifford E. Butler as Defendants. In addition, the Consolidated Complaint added the following directors as Defendants: Charles L. Black, S. Key Coker, Blake D. Lovette, Vance C. Miller, James G. Vetter, Jr., Donald L. Wass, Linda Chavez, and Keith W. Hughes. The Consolidated Complaint alleges four causes of action: violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder solely against Lonnie "Bo" Pilgrim, Clint Rivers, and Rick Cogdill (referred as the "Officer Defendants"). Those claims assert that, during the Class Period of May 5, 2008 through October 28, 2008, the Defendants, through various financial statements, press releases and conference calls, made material misstatements of fact and/or omitted to disclose material facts by purportedly failing to completely impair the goodwill associated with the Gold Kist acquisition. The Consolidated Complaint also asserts claims under Section 11 of the Securities Act of 1933 against all Defendants, asserting that, statements made in a Registration Statement in connection with the May 14, 2008 secondary offering of the Company's common stock were materially false and misleading for their failure to completely impair the goodwill associated with the Gold Kist acquisition. Finally, the Consolidated Complaint asserts a violation of Section 15 of the Securities Act of 1933 against the Officer Defendants only, claiming that the Officer Defendants were controlling persons of the Company and the other Defendants in connection with the Section 11 violation. By the Consolidated Complaint, the lead plaintiff seeks certification of the Class, undisclosed damages, and costs and attorneys' fees.

No discovery has commenced in the consolidated case, and the case has not been set for trial. We express no opinion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company by virtue of the consolidated case. We understand that the Individual Defendants intend to defend vigorously against the merits of the action and any attempts by the Lead Plaintiff to certify a class action.

The Wage and Hour Division of the US Department of Labor conducted an industry-wide investigation to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in *IBP, Inc. v. Alvarez*, employees have brought claims against the Company. The claims filed against the Company as of the date of this report include: "Juan Garcia, et al. v. Pilgrim's Pride Corporation, a/k/a Wampler Foods, Inc.," filed in Pennsylvania state court on January 27, 2006 and subsequently removed to the US District Court for the Eastern District of Pennsylvania; "Esperanza Moya, et al. v. Pilgrim's Pride Corporation and Maxi Staff, LLC", filed March 23, 2006 in the Eastern District of Pennsylvania; "Barry Antee, et al. v. Pilgrim's Pride Corporation" filed April 20, 2006 in the Eastern District of Texas; "Stephania Aaron, et al. v. Pilgrim's Pride Corporation" filed August 22, 2006 in the Western District of Arkansas; "Salvador Aguilar, et al. v. Pilgrim's Pride Corporation" filed August 23, 2006 in the Northern District of Alabama; "Benford v. Pilgrim's Pride Corporation" filed November 2, 2006 in the Northern District of Alabama; "Porter v. Pilgrim's Pride Corporation" filed December 7, 2006 in the Eastern District of Tennessee; "Freida Brown, et al v. Pilgrim's Pride Corporation" filed March 14, 2007 in the Middle District of Georgia, Athens Division; "Roy Menser, et al v. Pilgrim's Pride Corporation" filed February 28, 2007 in the Western District of Paducah, Kentucky; "Victor Manuel Hernandez v. Pilgrim's Pride Corporation" filed January 30, 2007 in the Northern District of Georgia, Rome Division; "Angefa Allen et al v. Pilgrim's Pride Corporation" filed March 27, 2007 in United States District Court, Middle District of Georgia, Athens Division; Daisy Hammond and Felicia Pope v. Pilgrim's Pride Corporation, in the Gainesville Division, Northern District of Georgia, filed on June 6, 2007; Gary Price v. Pilgrim's Pride Corporation, in the US District Court for the Northern District of Georgia, Atlanta Division, filed on May 21, 2007; Kristin Roebuck et al v. Pilgrim's Pride Corporation, in the US District Court, Athens, Georgia, Middle District, filed on May 23, 2007; and Elaine Chao v. Pilgrim's Pride Corporation, in the US District Court, Dallas, Texas, Northern District, filed on August 6, 2007. The plaintiffs generally purport to bring a collective action for unpaid wages, unpaid overtime wages, liquidated damages, costs, attorneys' fees, and declaratory and/or injunctive relief and generally allege that they are not paid for the time it takes to either clear security, walk to their respective workstations, don and doff protective clothing, and/or sanitize clothing and equipment. The presiding judge in the consolidated action in El Dorado issued an initial Case Management order on July 9, 2007. Plaintiffs' counsel filed a Consolidated Amended Complaint and the parties filed a Joint Rule 26(f) Report. On March 13, 2008, the Court issued an opinion and order finding that plaintiffs and potential class members are similarly situated and conditionally certifying the class for a collective action. The opt-in period is now closed. Approximately 13,700 plaintiffs have opted into the class.

Plaintiffs recently moved the court for leave to amend the consolidated complaint to add certain Company officers. The Company filed a Notice of Suggestion of Bankruptcy before any response to that motion was filed. The court has not yet ruled on the plaintiffs' motion. Likewise, the court has not issued an order in response to the Company's notice. The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company, including this lawsuit. The motion was denied without prejudice to the Company, commencing an adversary proceeding as to this case in order to seek the relief requested in the motion.

On June 1, 2009, the plaintiffs filed a master proof of claim in the Bankruptcy Court. On June 30, 2009, the Bankruptcy Court issued an order granting limited relief from the automatic stay to allow limited discovery. Pursuant to that order, the parties are currently working on a proposed stipulation to govern such discovery. Also, the Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Court has not ruled on that motion yet. Additionally, the DOL and the Company recently filed an agreed request that the DOL action be remanded to the Northern District of Texas, where it was originally filed. The plaintiffs have objected to this request and the Court has yet to rule on it. The Company believes that it has meritorious defenses to the consolidated lawsuit and intends to assert a vigorous defense to the litigation. We express no opinion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company.

As of the date of this report, the following suits have been filed against Gold Kist, now merged into Pilgrim's Pride Corporation, which make one or more of the allegations referenced above: *Merrell v. Gold Kist, Inc.*, in the US District Court for the Northern District of Georgia, Gainesville Division, filed on December 21, 2006; *Harris v. Gold Kist, Inc.*, in the US District Court for the Northern District of Georgia, Newnan Division, filed on December 21, 2006; *Blanke v. Gold Kist, Inc.*, in the US District Court for the Southern District of Georgia, Waycross Division, filed on December 21, 2006; *Clarke v. Gold Kist, Inc.*, in the US District Court for the Middle District of Georgia, Athens Division, filed on December 21, 2006; *Atchison v. Gold Kist, Inc.*, in the US District Court for the Northern District of Alabama, Middle Division, filed on October 3, 2006; *Carlisle v. Gold Kist, Inc.*, in the US District Court for the Northern District of Alabama, Middle Division, filed on October 2, 2006; *Benbow v. Gold Kist, Inc.*, in the US District Court for the District of South Carolina, Columbia Division, filed on October 2, 2006; *Bonds v. Gold Kist, Inc.*, in the US District Court for the Northern District of Alabama, Northwestern Division, filed on October 2, 2006. On April 23, 2007, Pilgrim's filed a Motion to Transfer and Consolidate with the Judicial Panel on Multidistrict Litigation ("JPML") requesting that all of the pending Gold Kist cases be consolidated into one case. Pilgrim's Pride withdrew its Motion subject to the Plaintiffs' counsel's agreement to consolidate the seven separate actions into the pending Benbow case by dismissing those lawsuits and refile/consolidating them into the Benbow action. Motions to Dismiss have been filed in all of the pending seven cases, and all of these cases have been formally dismissed. Pursuant to an agreement between the parties, which was approved by Court-order on June 6, 2007, these cases have been consolidated with the Benbow case. On that date, Plaintiffs were authorized to send notice to individuals regarding the pending lawsuits and were instructed that individuals had three months to file consents to opting in as plaintiffs in the consolidated cases. The opt-in period is now closed. To date, there are approximately 3,200 named plaintiffs and opt-in plaintiffs in the consolidated cases. The parties have engaged in limited discovery.

In response to a Notice of Suggestion of Bankruptcy, the Bankruptcy Court issued an order formally staying the case. On May 28, 2009, the plaintiffs filed a master proof of claim in the Bankruptcy Court. On June 30, 2009, the Bankruptcy Court issued an order granting limited relief from the automatic stay to allow limited discovery. Pursuant to that order, the parties are currently working on a proposed stipulation to govern such discovery. Also, the Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Bankruptcy Court has not ruled on that

motion yet. Additionally, on May 26, 2009, additional plaintiffs filed an adversary proceeding in the Bankruptcy Court commencing an action under the FLSA, Adversary Proceeding No. 09-4219 (the "Atkinson Action"). On May 28, 2009, approximately 17 individuals filed proofs of claim in the Atkinson Action. The FLSA allegations in the Atkinson Action are similar to those asserted in the MDL and Benbow cases and the plants involved in the Atkinson Action are also involved in the Benbow case. The Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Company intends to assert a vigorous defense to the litigation. The likelihood of an unfavorable outcome or the amount or range of ultimate liability cannot be determined at this time.

We are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

#### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2008 Annual Report on Form 10-K, including under the heading "Item 1A. Risk Factors", which, along with risks disclosed in this report, are all the risks we believe could materially affect the Company's business, financial condition or future results. These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

#### ITEM 5. OTHER INFORMATION

As previously announced, the Company filed voluntary Chapter 11 petitions on December 1, 2008. The Chapter 11 cases are being jointly administered under case number 08-45664. The Company has and intends to continue to post important information about the restructuring, including monthly operating reports and other financial information required by the Bankruptcy Court, on the Company's website [www.pilgrimspride.com](http://www.pilgrimspride.com) under the "Investors-Reorganization" caption. The Company intends to use its website as a means of complying with its disclosure obligations under SEC Regulation FD. Information is also available via the Company's restructuring information line at (888) 830-4659.

ITEM 6. EXHIBITS

- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 2004 filed on November 24, 2004).
- 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
- 4.1 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.2 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.3 Form of 7 5/8% Senior Note due 2015 (included in Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.4 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.5 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 4.6 Form of 8 3/8% Subordinated Note due 2017 (included in Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
- 10.1 Third Amendment to Amended and Restated Post-Petition Credit Agreement, dated as of July 15, 2009, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 17, 2009).

- 12 Computation of Ratio of Earnings to Fixed Charges.\*
- 31.1 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.3 Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PILGRIM'S PRIDE CORPORATION

Date: July 31, 2009

/s/ Richard A. Cogdill  
Richard A. Cogdill  
Chief Financial and Accounting Officer

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  - 3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 4, 2007).
  - 4.1 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 4.2 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 4.3 Form of 7 5/8% Senior Note due 2015 (included in Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 4.4 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 4.5 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 4.6 Form of 8 3/8% Subordinated Note due 2017 (included in Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 24, 2007).
  - 10.1 Third Amendment to Amended and Restated Post-Petition Credit Agreement, dated as of July 15, 2009, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 17, 2009).
-



- 12 Computation of Ratio of Earnings to Fixed Charges.\*
- 31.1 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.3 Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith

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**EXHIBIT E**

**JSB USA Holdings, Inc. Form S-1**

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM S-1 REGISTRATION STATEMENT under The Securities Act of 1933

### JBS USA Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

2011  
(Primary Standard Industrial  
Classification Code Number)

20-1413756  
(I.R.S. Employer  
Identification Number)

JBS USA Holdings, Inc.  
1770 Promontory Circle  
Greeley, Colorado 80634  
(970) 506-8000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

André Nogueira de Souza  
Chief Financial Officer  
JBS USA Holdings, Inc.  
1770 Promontory Circle  
Greeley, Colorado 80634  
(970) 506-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Donald E. Baker  
John R. Vetterli  
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425 Lexington Avenue  
New York, New York 10017  
(212) 455-7086

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

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

### CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee
Common stock, par value <input type="checkbox"/> 0.01 per share .....	<input type="checkbox"/> 2,000,000,000	<input type="checkbox"/> 111,600

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act of 1933. Includes amounts attributable to shares of common stock that may be purchased by the underwriters to cover over-allotments, if any. See Underwriting.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated \_\_\_\_\_, 2009

Prospectus

*shares*



# JBS USA HOLDINGS, INC.

## *Common stock*

This is the global initial public offering of our common stock, which consists of an international offering in the United States and other countries outside Brazil and a concurrent offering in the form of Brazilian depository receipts, or "BDRs," in Brazil. Each BDR represents \_\_\_\_\_ shares of our common stock. Of the shares of common stock to be sold in the offering, we are selling \_\_\_\_\_ shares and JBS Hungary Holdings Kft., or the selling stockholder, is selling \_\_\_\_\_ shares. We will not receive any of the proceeds from the shares of common stock being sold by the selling stockholder. We expect the initial public offering price to be between \_\_\_\_\_ and \_\_\_\_\_ per share.

The international offering is being underwritten by the international underwriters named in this prospectus. The Brazilian offering is being underwritten by a syndicate of Brazilian underwriters. The closing of the Brazilian offering will be conditioned upon the closing of the international offering.

Prior to the global offering, there has been no public market for our common stock. We expect to apply for listing of our common stock on The New York Stock Exchange under the symbol "JBS." We also expect to apply to list the BDRs on the São Paulo Stock Exchange under the symbol \_\_\_\_\_.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Initial public offering price	□	□
Underwriting discount	□	□
Proceeds to JBS USA Holdings, Inc., before expenses	□	□
Proceeds to the selling stockholder, before expenses	□	□

We have granted the international underwriters an option for a period of 30 days to purchase from us up to additional shares of our common stock to cover over-allotments, if any, in connection with the international offering.

**Investing in our common stock involves a high degree of risk. See "Risk factors" beginning on page 20 to read about certain factors you should consider before buying shares of our common stock.**

The underwriters expect to deliver the shares on or about \_\_\_\_\_, 2009.

**J.P.Morgan**

, 2009

**BofA Merrill Lynch**

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You should rely only on the information contained in this prospectus or in any free writing prospectus prepared by or on behalf of us and delivered or made available to you. Neither we nor the selling stockholder have authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholder are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in a jurisdiction outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until \_\_\_\_\_, 2009, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotment or subscriptions.

# Prospectus summary

*The following summary highlights information contained elsewhere in this prospectus. Before deciding whether to buy shares of our common stock, you should read this summary and the more detailed information in this prospectus, including our consolidated financial statements and related notes and the discussion of the risks of investing in our common stock in the section entitled "Risk factors." Except as the context otherwise requires, references in this prospectus to JBS USA Holdings, Inc. and the terms "we," "us" and "our" refer to JBS USA Holdings, Inc. and its subsidiaries. When we present financial data "on a pro forma basis," it means that the financial data as of and for the fiscal year ended December 28, 2008 and as of and for the fiscal quarter ended March 30, 2008 reflects our acquisition of Smithfield Beef Group, Inc. (which we subsequently renamed JBS Packerland, Inc., or JBS Packerland), which included the acquisition of 100% of Five Rivers Ranch Cattle Feeding LLC, or Five Rivers, as if it had occurred at the beginning of the period presented as further discussed under "Unaudited pro forma combined financial information."*

## **JBS USA Holdings, Inc.**

We are a global leader in beef and pork processing with approximately \$15.4 billion in net sales for the fiscal year ended December 28, 2008 on a pro forma basis. In terms of daily slaughtering capacity, we are among the leading beef and pork processors in the United States and we have been the number one processor of beef in Australia for the past 15 years. As a standalone company, we would be the largest beef processor in the world. We also own and operate the largest feedlot business in the United States.

We process, prepare, package and deliver fresh, processed and value-added beef and pork products for sale to customers in over 60 countries on six continents. Our operations consist of supplying fresh meat products, processed meat products and value-added meat products. Fresh meat products include refrigerated beef and pork processed to standard industry specifications and sold primarily in boxed form. Our processed meat offerings, which include beef and pork products, are cut, ground and packaged in a customized manner for specific orders. Additionally, we process lamb and mutton products. Our value-added products include moisture-enhanced, seasoned, marinated and consumer-ready products. We also provide services to our customers designed to help them develop more comprehensive and profitable sales programs. Our customers are in the food service, international, further processor and retail distribution channels. We also produce and sell by-products that are derived from our meat processing operations, such as hides and variety meats, to customers in the clothing, pet food and automotive industries, among others.

We are a wholly owned indirect subsidiary of JBS S.A., the world's largest beef producer, which has a daily slaughtering capacity of 73,940 head of cattle. In the fiscal quarter ended March 29, 2009, we represented approximately 78% of JBS S.A.'s gross revenues. Over the past few years, JBS S.A. has acquired several U.S. and Australian beef and pork processing companies and slaughterhouses, which now comprise JBS USA Holdings, Inc. and its subsidiaries:

- on July 11, 2007, JBS S.A. acquired Swift Foods Company (our predecessor company, which was subsequently renamed JBS USA Holdings, Inc.), which we refer to as the Swift Acquisition;
- on May 2, 2008, we acquired substantially all of the assets of the Tasman Group Services, Pty. Ltd., or the Tasman Group, which we refer to as the Tasman Acquisition; and
- on October 23, 2008, we acquired Smithfield Beef Group, Inc. (which we subsequently renamed JBS Packerland), which included the 100% acquisition of Five Rivers. We refer to this transaction as the JBS Packerland Acquisition.

In the United States, we conduct our operations through eight beef processing facilities, three pork processing facilities, one lamb processing facility, one case-ready beef and pork facility, one hide tannery, seven leased regional distribution centers, two grease-producing facilities, and 11 feedlots operated by Five Rivers, which supply approximately 30% of our fed cattle needs. In Australia, we operate ten beef and small animals processing facilities, including the largest and what we believe is the most technologically advanced facility in the country, and five feedlots which supply approximately 18% of our fed cattle needs. Our small animals processing facilities in Australia process hogs, lamb and sheep, or smalls. Our Australian facilities are strategically located to access raw materials in a cost effective manner and to service our global customer base. We have the capacity to process approximately 28,600 cattle, 48,500 hogs and 4,500 lambs daily in the United States and 8,690 cattle and 15,000 smalls daily in Australia based on our facilities' existing configurations.

Our business operations are organized into two segments:

- our Beef segment, through which we conduct our domestic beef processing business, including the beef operations we acquired in the JBS Packerland Acquisition, and our international beef, lamb and sheep processing businesses that we acquired in the Tasman Acquisition; and
- our Pork segment, through which we conduct our domestic pork and lamb processing business.

We had consolidated net sales of \$15.4 billion on a pro forma basis in the fiscal year ended December 28, 2008, and we had consolidated net sales of \$3.2 billion in the fiscal quarter ended March 29, 2009. In the same periods, we had gross profit of \$608.0 million on a pro forma basis and \$73.0 million, respectively, and Adjusted EBITDA of \$531.8 million on a pro forma basis and \$66.1 million, respectively. Our net income for the fiscal year ended December 28, 2008 was \$192.1 million on a pro forma basis and \$2.3 million for the fiscal quarter ended March 29, 2009. Our Beef and Pork segments represented 84% and 16%, respectively, of our net sales on a pro forma basis during the fiscal year ended December 28, 2008, and 84% and 16%, respectively, of our net sales during the fiscal quarter ended March 29, 2009.

## **Industry overview**

### **Beef**

#### ***United States***

Beef products are second to chicken as the largest source of meat protein in the United States. The United States has the largest grain-fed cattle industry in the world and is the world's largest producer of beef, which is primarily high-quality grain-fed beef for domestic and export use. The domestic beef industry is characterized by daily price changes based on seasonal consumption patterns and overall supply and demand for beef and other proteins in the United States and abroad. Cattle prices vary over time and are impacted by inventory levels, the production cycle, weather and feed prices, among other factors.

Beef processors include vertically integrated companies, who own and raise cattle on feed for use in their processing facilities, and pure processors, who do not own cattle on feed. Vertically integrated beef processors can be subjected to significant working capital demands, since cattle typically feed in the yards for 90-180 days without any revenue generation until processed. Additionally, as cattle on feed consume feed with a replacement price that is subject to market changes, vertically integrated beef processors have direct financial exposure to the volatility in corn and other feedstock prices. Pure U.S. beef processors generally purchase cattle in the spot market or pursuant to market-priced supply arrangements from feedlot operators, process the cattle in their own facilities and sell the beef at spot prices. Cattle are usually purchased at market prices and held for less than a day before processing, thus such processors are not exposed to changing market prices over as great a time span as vertically integrated beef processors. Pure beef processors are primarily "spread" operators, and their operating profit is largely determined by plant operating efficiency rather than by fluctuations in prices of cattle and beef.

During the past few decades, consumer demand for beef products in the United States has been in line with population growth, which is the primary driver of aggregate demand. Export demand has fluctuated widely due to the closing of certain international markets following the discovery of isolated cases of bovine spongiform encephalopathy, or BSE (also commonly referred to as mad cow disease), in 2003 and 2004, and the sporadic re-opening of such markets. We believe that consumer demand for U.S. exports in developing countries is driven by population growth compounded by economic growth. As consumers' economic circumstances improve, they increasingly shift their diets to protein. Industry-wide export sales have been ramping up from 2004 through mid-2009, trending toward pre-2003 levels.

Between 2006 and January 2008, our largest U.S. beef competitor eliminated two million head per year of slaughter capacity in four plants. This represented a reduction of nearly 7% of total U.S. industry-wide capacity and has helped improve the supply-demand balance of beef in the U.S. and export markets.

#### ***Australia***

Australia has traditionally been a supplier of grass-fed beef. Grass is a much cheaper feed source than grain. With the vast amount of land in Australia available for cattle raising and feeding, grass is the predominant feeding method. Australia also has a grain-fed beef cattle sector which primarily supplies processed cattle for export to Japan and South Korea and to the domestic market. Grain-fed cattle accounted for 27% of the adult cattle slaughter in 2008, representing 34% of total beef production in Australia. The majority of cattle slaughtered in Australia are range or grass-fed and not finished in the feedlots. Australia has been one of the leading beef export countries for more than a decade. We believe that approximately 75% of exports have historically been sold to the United States, Japan and South Korea, but Australian beef has been increasingly exported to Russia, Taiwan, Mexico, Chile and the United Arab Emirates, among other countries. Although Australian meat packers, including our Australian operations, benefited from the closure of many markets to North American beef as a result of BSE detections in North American cattle, Australian exports have remained strong following the reopening of international markets to North American beef.



## **Global exports**

We sell our products in over 60 countries on six continents, and exports accounted for approximately 24% of our sales in 2008 on a pro forma basis and 21% of our sales for the fiscal quarter ended March 29, 2009. The international beef market is divided into two blocks based on factors that include common sanitary criteria, such as restrictions on imports of fresh beef from countries that permit foot-and-mouth disease, or FMD, vaccination programs or beef treated with growth hormones.

The United States has been an FMD-free country since the eradication of the disease, and it does not implement vaccination programs. However, the United States treats most of their cattle with growth hormones, and, accordingly, the European Union and several other countries have banned imports of beef treated with growth hormones from the United States.

In contrast, Brazil and Argentina have prohibited the use of growth hormones on their cattle. JBS S.A. is a large exporter of beef to the European Union.

We believe that our U.S. export operations of fresh beef today do not directly compete with our parent company's Brazilian and Argentine export operations of fresh beef in our main export destinations. Consequently, we do not have formal arrangements with JBS S.A. to coordinate our exports in our export markets. However, to the extent that sanitary restrictions change in the future, we could become direct competitors of our parent company in certain export markets.

We do compete with JBS S.A. to a limited degree, however, for example, to the extent that our Australian operations export to the European Union, the Middle East and Southeast Asia, which are also export markets for JBS S.A. We do not believe our Australian business' competition with JBS S.A. in these markets has a material adverse effect on our current business.

## **Pork**

Pork products are the most widely consumed meat in the world. Pork is the third largest source of meat protein in the United States, behind chicken and beef. The United States, which is widely regarded as a world leader in food safety standards, is the third largest producer worldwide, behind China and the European Union, and one of the largest exporters of pork products.

The domestic pork industry is characterized by daily price changes based on seasonal consumption patterns and overall supply/demand for pork and other meats in the United States and abroad. Generally, domestic and worldwide consumer demand for pork products drive pork processors' long-term demand for hogs. To operate profitably, hog processors seek to acquire or raise hogs at the lowest possible costs and minimize processing costs by maximizing plant operating rates. Hog prices vary over time and are impacted by inventory levels, the production cycle, weather and feed prices, among other factors.

Pork processors include vertically integrated companies, which own and raise hogs on feed for use in their processing facilities, and pure processors, who do not own hogs on feed. Vertically integrated pork processors can be subjected to significant financial impact from working capital demands, since hogs feed in the yards for approximately 180 days without revenue generation until processed. Additionally, since hogs on feed consume feed with a replacement price that is subject to market changes, vertically integrated pork processors have direct financial exposure to the volatility in corn and other feedstock prices. Pure processors generally purchase finished hogs under long-term supply contracts at prevailing market prices, process the hogs in their own facilities and sell the finished products at spot prices. Finished hogs are typically purchased at market prices and held for less than one day before processing, thus pure processors are not exposed to changing market prices over as great a time span as vertically integrated processors. Pure pork processors are primarily "spread" operators, and their operating profit is largely determined by plant operating efficiency and not by fluctuations in prices of hogs and pork.

While affected by seasonal consumption patterns, demand for pork has remained consistently strong. During the past few decades, population growth has been the primary driver of increased aggregate pork product demand in the United States. We believe that consumer demand for U.S. exports in developing countries is driven by population growth compounded by economic growth: as consumers' economic circumstances improve, they increasingly shift their diets to protein. To satisfy the growing global demand, U.S. pork exports have more than tripled in the past decade. The top three leading export markets for U.S. pork and pork variety meats are Japan, Mexico and Canada.

## Competitive strengths

We are well positioned as a leading meat processor in the U.S. and Australia. We have implemented significant operational improvements over the last several years, resulting in increases in throughput, additional value-added products, improved food safety and industry-leading worker safety. Our competitive strengths include:

### Scale and leading market positions in beef and pork industries

As a standalone company we would be the largest beef processor in the world. In terms of daily slaughtering capacity, we are among the leading beef and pork processors in the United States and we have been the number one processor of beef in Australia for the past 15 years. With a slaughtering capacity of 37,290 heads per day in beef, 48,500 heads per day in hogs and over 19,500 heads per day in smalls, our scale provides us with operational flexibility to:

- source our products based on the most favorable conditions of input costs,
- diversify our operations to minimize sanitary risk, and
- attain proximity to our raw materials and end customers given our geographical reach, saving freight and storage costs.

During the past few decades, consumer demand for beef and pork products in the United States has been increasing primarily as a result of population growth. Global protein demand has remained strong due to continued population growth and economic growth in developing countries. Despite the current economic recession, we believe protein demand will continue to increase in the long-term in conjunction with rising living standards and a growing middle class in developing countries. As part of JBS S.A., the world's leading beef producer, and given the industry's significant barriers to entry, we believe we are well-positioned to serve this growing global demand.

### Diversified business model with international reach

Our business is well diversified across proteins and all major distribution channels, as well as geographically with respect to production and distribution.

- *Diversified protein offerings:* We sell beef, pork and lamb products. Selling multiple proteins offers us the opportunity to cross-sell to our customers and to diversify typical industry risks such as industry cycles, the impact of species-based diseases and changes in consumer protein preferences. As a result of our multiple proteins, our businesses, when taken as a whole, are less likely to be severely impacted by issues affecting any one protein. Additionally, our JBS Packerland beef processing facilities are engineered to provide us with the flexibility to process a variety of cattle, which allows further diversification of our beef product offerings. For example, our JBS Packerland facilities are engineered to process both cattle raised for beef production and cattle bred for dairy production. This flexibility enables us to shift our operations on a daily basis between beef and dairy cattle depending on market availability, seasonal demand and relative margin attractiveness, setting us apart from many beef processing facilities in the United States.
- *Sales and distribution channel diversification:* We benefit from our diversified sales and distribution channels, which include national and regional retailers (including supermarket chains, independent grocers, club stores and wholesale distributors), further processors (including those that make bacon, sausage and deli and luncheon meats), international markets and the food service industry (including food service distributors, which service restaurant and hotel chains and other institutional customers). We sell our products to over 6,000 customers worldwide with no customer accounting for more than 4.5% of our net sales. This reduces our dependence on any market or customer and provides multiple channels for potential growth. In the retail segment, we further benefit from a variety of widely recognized brands, including *Swift*, *Swift Premium*, *Swift Angus Select*, *Swift Premium Black Angus*, *Miller Blue Ribbon Beef* and *G.F. Swift 1855* among others. We also manufacture products for some of our main customers' private label brands.
- *Geographic diversification:* We sell our products in over 60 countries on six continents. During fiscal 2008, on a pro forma basis, and the fiscal quarter ended March 29, 2009, we had international sales of \$3.8 billion and \$0.7 billion, respectively. Overall, exports accounted for approximately 24% of our sales in 2008 on a pro forma basis and 21% of our sales for the fiscal quarter ended March 29, 2009. Exports are an important part of our strategy and a competitive advantage. In fiscal 2008, we supplied Japan and South Korea with 36% and 47% of their total beef imports, respectively, according to Meat & Livestock Australia Limited. We believe we were the largest supplier of beef imported into Japan and South Korea in 2008. Our imports of beef to the United States from Australia totaled 32% of total Australian beef imports to the United States during fiscal 2008. Our geographic diversification enables us to reduce exposure to any one market and concurrently have access to all export markets. Additionally, having access to international markets allows us to potentially generate higher returns as many of our export products, such as tongue, heart, kidney and other variety meats, garner higher demand and pricing in foreign markets, particularly in Asia.

Our processing platforms in the United States and Australia, which are two major beef producing countries, provide us with enough geographic diversification and operating flexibility to satisfy demand depending on market conditions and sanitary restrictions. For example, our facilities in Dinmore, Beef City, Brooklyn and Longford, Australia accommodate non-hormone-treated fed cattle allowing us to market our products to the European Union (which prohibits imports of hormone-treated products). Accordingly, each of these facilities is eligible to ship to the European Union. We also benefit from greater international market access through our Worthington pork plant, which is one of only three facilities in the United States certified for export to the European Union. Additionally, our JBS Packerland facilities are located near major metropolitan areas, resulting in lower freight costs relative to cattle processing facilities in more rural locations.

While the closure of foreign markets to U.S. beef in 2003 negatively impacted the U.S. beef industry, our Australian beef operation retained access to those markets and benefited from reduced competition. Furthermore, we have a U.S. sales office which annually sources over \$160 million of meat products from our Australian facilities into the U.S. market products that provide U.S. customers, particularly in the food service and further processing channels, with a source of lean protein.

### **World class operations**

We believe our operations are among the most efficient in the industry. We operate three of the six highest-throughput beef facilities in the United States. Furthermore, we continuously focus on improving our operating efficiencies. We have developed a program to improve the coordination of our planning, forecasting, scheduling, procurement and manufacturing functions to drive performance in the supply chain. Our efforts in 2008 were focused on increasing beef yields, reducing operational costs and lowering overhead. One of the key initiatives in delivering on this strategy was returning our Greeley, Colorado processing facility to its originally designed capacity as a two-shift operation. Producing more volume in the same length of time reduces our cost per pound. As a measure of our progress, excluding the JBS Packerland Acquisition and the Tasman Acquisition, during the fiscal year ended December 28, 2008, our Beef and Pork segments demonstrated an 8.5% and 3.8% increase in throughput, respectively, compared to the fiscal year ended December 30, 2007. As a result, we remain focused on leveraging our fixed cost base to improve our operating margins.

### **Strong balance sheet and limited derivative exposure relative to our peers**

We have lower leverage than certain of our competitors. Moreover, since we are not vertically integrated in our U.S. operations, we are not significantly exposed to commodity hedging losses. We believe that our business and capital structure provides us with flexibility to respond to market conditions and to capitalize on business opportunities, particularly in the current credit-constrained environment.

### **Established customer relationships**

We have developed long-standing relationships with numerous well-established, global customers, many of whom have been doing business with us for more than 20 years. We serve many of the largest food service distributors, quick-service restaurants and retail chains in the United States. Additionally, we are focused on developing close, mutually beneficial relationships with our customers, who we believe view us as a long-term strategic partner and consider us an extended part of their operations. We believe that the high-quality long-standing relationships we have developed provide us with revenue stability and forecasting transparency.

### **Proven management team and high performance work force**

We have a proven senior management team whose experience in the protein industry has spanned numerous market cycles. Since the Swift Acquisition, we have simplified our management structure through headcount reduction and streamlined decision-making processes, effectively empowering our employees. We also benefit from management ideas, best practices, and talent shared with the seasoned management team at our parent company, who has over 50 years of experience operating beef processing facilities in Brazil. Members of JBS S.A.'s South American management team have been appointed to management positions in our United States and Australian operations. In addition, members of our Australian management team have been appointed to management positions in the United States, and vice-versa. Moreover, our management and that of our parent company have significant experience in acquiring and successfully integrating operations as evidenced by the more than 30 acquisitions made by JBS S.A. in the last 15 years, and more recently the integration of the JBS Packerland Acquisition and the Tasman Acquisition by us.

## **Our strategy**

Prior to 2002, our predecessor was owned and operated by a multinational food company. From 2002 to 2007, our predecessor was owned by a private equity company. Since the Swift Acquisition in July 2007, we have significantly changed our business strategy. Our current strategy is to continue to grow our business' revenues and profitability through the following strategic initiatives:

### **Continuously improve profitability through process optimization**

We continue to focus on enhancing our production yields and operational abilities and improving our information technology systems, with a view toward reducing our operating costs and improving throughput yields. Our initiatives in 2008 geared towards cost reductions led to approximately \$90 million in cost savings as compared to the fiscal year ended December 30, 2007. These cost reductions included renegotiating vendor contracts, insourcing of contract services previously outsourced and plant cost initiatives. We expect to further improve our operating performance by adopting best practices and leveraging additional operating expertise that we have access to as a member of the JBS S.A. group. Separately, we have been able to reduce operating costs by, among other measures, eliminating our reliance on third-party consultants and performing certain services in-house that were formerly outsourced at a premium. We have decreased our selling, general and administrative expenses by eliminating multiple layers of management positions and by requiring our service providers to participate in competitive bidding processes. As a measure of this progress, we have reduced annual selling, general and administrative expenses by over \$24.5 million, or 20.7%, for the fiscal year ended December 28, 2008, and in 2008 ranked as having the lowest ratio of selling, general and administrative expense to net sales among publicly traded protein companies in the United States. In addition to contract renegotiations and management efficiencies, operating efficiencies have led to annual incremental cost savings and margin improvements of approximately \$115 million for the fiscal year ended December 28, 2008. These operating efficiencies include adding a second shift at our Greeley plant, our yield improvement projects, including introduction of a pork casing sorting system (a margin enhancement strategy brought to the United States by JBS S.A.) in all of our U.S. pork plants, improved deboning training and cutting techniques on the fabrication floor and increased value-added production.

### **Continue to successfully integrate recent acquisitions and selectively pursue additional value-enhancing growth opportunities**

We have a proven track record of successfully acquiring and integrating companies, resulting in production and operating synergies. In 2008, we increased production through the Tasman Acquisition and the JBS Packerland Acquisition. These acquisitions have increased our daily cattle processing capacity from approximately 26,500 to 37,290 cattle. Additionally, as a result of the Tasman Acquisition, we added the ability to process 15,000 smalls per day in Australia. The Tasman Group is currently fully integrated with our legacy northern Australia operations in livestock procurement and sales. We expect to complete full integration of all information technology systems by the end of 2009. Similarly, JBS Packerland is fully integrated with respect to our customer credit, legal, treasury, financial reporting, insurance procurement and tax functions and certain employee benefit plans. We have identified and captured shared purchasing opportunities in certain packaging areas and continue to identify additional opportunities as contracts expire. We intend to complete our operational and financial information technology integration of JBS Packerland by September 2009. We will continue to work to maximize potential synergies from these acquisitions. Additionally, we intend to continue to selectively pursue additional value-enhancing growth opportunities as they arise.

### **Increase sales and enhance margins by significantly expanding our direct distribution network**

Since the Swift Acquisition, we have built a leading global production platform. Capitalizing on our production platform, we are now pursuing a global direct distribution strategy that will enable us to improve our ability to service current customers and allow us the opportunity to directly service new customers, primarily in the food service and retail channels. Our historical sales strategy has relied upon the use of third-party distributors who purchase our product and resell it to end-user customers at higher prices, retaining the incremental margin for their own benefit. We intend to shift a significant part of our sales efforts into direct sales to end-user customers in order to capture this incremental margin. This is consistent with our approach of in-sourcing activities previously outsourced in order to eliminate margin leakage to third parties. Direct distribution will include regional distribution centers, portion control fabrication, or 'cutting room' facilities (taking primal cuts which we would have sold only as whole muscle cuts to third parties and fabricating them into individual serving chops or steaks), and direct sales and shipment of products to individual end-user customers by our sales personnel using our own delivery vehicles. This direct distribution strategy will require us to substantially expand our distribution network and sales force domestically and internationally by both acquisitions and greenfield investments. During the next five years, we intend to make substantial investments, including with a portion of the net proceeds of this offering, in order to significantly expand our direct distribution network. Ultimately, we believe that our investment in this direct distribution strategy will allow us to capture incremental sales and operating margin opportunities.

## **Increase processed and value-added offerings**

Historically, we have realized greater margins by offering value-added products and services to our customers. These offerings reduce their costs and help stimulate consumer demand. Examples of our value-added product and service offerings include additional processing to create sliced, cubed and tenderized products and consumer-ready chops and steaks. Similarly we also provide marinated and seasoned meats. These services help reduce labor costs for our food service customers and are examples of our focus on providing our customers with solutions to increase their beef and pork sales.

We believe our retail and food service customers will continue to value more convenient processed products from us. We currently operate 20 plants that produce beef and pork products that are cut, ground and packaged in a customized manner for specific orders that are primarily sold through the food service and retail distribution channels. We intend to expand our processed offerings through line expansions, acquisitions and/or greenfield investments. Increasing our value-added offerings is not limited to growth in processing capabilities, as our Five Rivers operations provide us the ability to design feeding programs that allow us to consistently deliver products that meet the exact specifications desired by our customers. We believe that increased value-added capabilities will drive margin improvement and increase the value we provide to customers.

## **Promote innovation across the value chain**

We believe we can increase our profitability by developing and implementing innovative process and product improvements across the value chain. Our innovations include implementing a casing sorting system utilized in Brazil which enables the sorting of hog intestines (casings) for sale to end-users from all of our U.S. pork processing facilities, resulting in significantly improved margins. Additionally, we have developed and implemented energy conversion and recovery processes including real-time processes by which byproducts of purchased natural gas or grease produced in our rendering operations are converted into useable fuels and a methane recovery process resulting in useable methane gas that is subsequently resold in North American pipelines. We have also instituted Halal processing capabilities in our Australian operations, providing us with the opportunity to expand our exports to Muslim customers located in the Middle East, which we believe sets us apart from our competitors in Australia. We will continue to seek to develop innovative process and product improvements across the value chain.

## **Maintain leadership in food and employee safety**

We prioritize our food and employee safety objectives in order to accomplish two principal goals. First, we focus on maintaining a high standard of food safety in order to ensure the quality of our products and attempt to avoid the potential adverse market reaction that is associated with recalls that occur from time to time in the meat processing industry. Second, we strive to continuously improve our employee safety in order to increase the efficiency of our facilities and reduce our operating costs. Since January 2003, we have reduced the number of lost-time injury events by approximately 50% at our beef processing facilities and by approximately 45% at our pork processing facilities through design and implementation of a comprehensive multi-faceted employee safety and injury prevention program.

## **Recent developments**

On April 27, 2009, our wholly owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc. issued \$700.0 million in senior unsecured notes due May 2014 bearing interest at 11.625%, which, after deducting initial purchaser discounts, commissions and expenses in respect of this notes offering, generated net proceeds of approximately \$650.8 million. The notes have semi-annual interest payment dates in May and November, commencing November 2009. The proceeds of the notes issuance were used to repay \$100.0 million of borrowings under our secured revolving credit facility and to repay \$550.8 million of the outstanding principal and accrued interest on intercompany loans to us from a subsidiary of JBS S.A., as described below.

As of March 29, 2009, we owed to JBS S.A. an aggregate of \$658.6 million under various intercompany loans, which were subsequently assigned to JBS HU Liquidity Management LLC (Hungary), a wholly owned, indirect subsidiary of JBS S.A. The proceeds of these intercompany loans were used for the Tasman Acquisition and the JBS Packerland Acquisition, as well as to fund our operations. On April 27, 2009, these intercompany loan agreements were consolidated into one loan agreement. The maturity dates of the intercompany loans were extended to April 18, 2019, and the interest rate was changed to 12% per annum. The net proceeds of the offering of the 11.625% senior unsecured notes due 2014 (other than \$100.0 million) were used to repay accrued interest and a portion of the principal on these intercompany loans. As of May 31, 2009, we owed an aggregate principal amount of \$133.0 million under the consolidated intercompany loan agreement. See "Certain relationships and related party transactions."

## **Corporate information**

JBS USA Holdings, Inc. was incorporated in Delaware on July 23, 2004. We are a holding company and a direct, wholly owned subsidiary of JBS Hungary Holdings Kft., the selling stockholder, and a wholly owned, indirect subsidiary of JBS S.A. JBS S.A. is a publicly traded company in Brazil and the world's largest beef producer. On July 11, 2007, JBS S.A. acquired Swift Foods Company for an aggregate purchase price of \$1,470.6 million. JBS S.A. made this acquisition through JFF Acquisition Co., which thereafter merged with Swift Foods Company and changed its name to JBS USA, Inc., and subsequently JBS USA, Inc. changed its name to JBS USA Holdings, Inc.

Our corporate headquarters and principal executive offices are located at 1770 Promontory Circle, Greeley, Colorado, and our telephone number is (970) 506-8000. Our website is [www.jbsswift.com](http://www.jbsswift.com). Information contained on our website is not incorporated into, and does not constitute a part of, this prospectus.

# The offering

*The following summary contains basic information about the shares and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the shares, please read the section of this prospectus entitled "Description of capital stock."*

<b>Issuer</b>	JBS USA Holdings, Inc.
<b>Selling stockholder</b>	JBS Hungary Holdings Kft.
<b>Global offering</b>	The global offering consists of the international offering and the concurrent Brazilian offering.
<b>International offering</b>	We and the selling stockholder are offering shares of common stock through the international underwriters in the United States and other countries outside Brazil.
<b>Brazilian offering</b>	Concurrently with the international offering, we and the selling stockholder are offering shares of common stock in the form of BDRs through the Brazilian underwriters in Brazil.
<b>Common stock offered by us</b>	shares.
<b>Common stock offered by the selling stockholder</b>	shares.
<b>Common stock to be outstanding after this offering</b>	shares (or shares if the underwriters exercise in full their option to purchase additional shares to cover over-allotments, if any).
<b>Offering price</b>	We expect the offering price to be between □ and □ per share.
<b>Over-allotment option</b>	We have granted the international underwriters an option for a period of 30 days to purchase from us up to additional shares of our common stock to cover over-allotments, if any.
<b>Use of proceeds</b>	<p>We expect to receive net proceeds from the sale of our common stock in this global offering, after deducting the underwriting discount and other estimated expenses, of approximately □ million. We intend to use a portion of our net proceeds from this offering to selectively pursue value-enhancing growth opportunities as they arise. For example, during the next five years, we intend to make substantial investments in order to significantly expand our direct distribution network. We also intend to use a portion of the net proceeds from this offering for working capital and general corporate purposes. See "Use of proceeds."</p> <p>We will not receive any of the sales proceeds associated with common stock offered by the selling stockholder.</p>
<b>Dividend policy</b>	<p>Our board of directors will adopt a dividend policy pursuant to which any future determination relating to dividend policy will be made at its discretion and will depend on a number of factors, including our business and financial condition, any covenants under our debt agreements and our parent company's legal obligation to distribute dividends described below. However, our board of directors may, in its discretion and for any reason, amend or repeal this dividend policy. Our board of directors may increase or decrease the level of dividends provided for in our dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to our common shares, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, distribution of dividends made by our subsidiaries, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant.</p>

Our parent company, JBS S.A., is required by the Brazilian corporate law to distribute on an annual basis dividends representing 25% of its net income (as calculated under generally accepted accounting principles in Brazil, subject to certain adjustments mandated by Brazilian corporate law) unless its board of directors has determined, in its discretion, that such distribution would not be advisable or appropriate in light of its financial condition.

**Voting rights**

Holders of our common stock will be entitled to one vote per share on all matters submitted to a vote of our stockholders.

**Proposed New York Stock Exchange and São Paulo Stock Exchange symbols**

We intend to apply to have our common stock listed on The New York Stock Exchange under the trading symbol [JBS].

We expect to apply to have the BDRs listed on the São Paulo Stock Exchange under the symbol [ ].

**Directed share program**

At our request, the underwriters have reserved up to % of the shares of common stock for sale at the initial public offering price to persons who are directors, officers or employees, or who are otherwise associated with us, through a directed share program. The sales will be made by through a directed share program. We do not know if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they do make will reduce the number of shares available to the general public. See [Underwriting].

**Lock-up agreements**

In connection with this offering, we, the selling stockholder and our executive officers and directors will enter into lock-up agreements with the underwriters of this global offering under which neither we nor they may, for a period of 180 days after the date of this prospectus, directly or indirectly sell, dispose of or hedge, or file or cause to be filed a registration statement with the SEC under the Securities Act or the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or [CVM]) relating to, any shares of common stock, including BDRs representing such shares, or any securities convertible into or exchangeable for shares of common stock, including BDRs representing such shares, without the prior written consent of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the international underwriters and the Brazilian underwriters.

**Certain relationships and related party transactions**

Please read [Certain relationships and related party transactions] for a discussion of business relationships between us and related parties and [Underwriting] for information regarding relationships between us and the underwriters.

**Risk factors**

You should carefully read and consider the information set forth under [Risk factors] and all other information set forth in this prospectus before investing in our common stock.

Unless otherwise indicated, all information contained in this prospectus assumes:

- no exercise of the international underwriters' option to purchase up to additional shares of common stock to cover over-allotments, if any, and
- that the common stock to be sold in this global offering is sold at \$ , which is the midpoint of the range set forth on the cover page of this prospectus.

Except as otherwise noted, the number of shares of our common stock to be outstanding after this global offering:

- excludes shares available for future awards under our stock option plan (see [Compensation discussion and analysis] 2009 stock incentive compensation plan for more information), and
- gives effect to a -for-one stock split to take place immediately prior to completion of this offering.



## Summary historical and pro forma financial data

The following tables set forth our summary historical and unaudited pro forma financial data at the dates and for the periods indicated.

Our summary historical financial information contained in this prospectus is derived from:

- (1) our predecessor's audited historical consolidated financial statements as of and for
  - (a) the fiscal year ended December 24, 2006, and
  - (b) the 198 days from December 25, 2006 through July 10, 2007 (the date immediately preceding the Swift Acquisition),
- (2) our audited historical consolidated financial statements as of and for
  - (a) the 173 days from July 11, 2007 through December 30, 2007, and
  - (b) the fiscal year ended December 28, 2008,
- (3) our unaudited historical consolidated financial statements for the fiscal quarter ended March 30, 2008, and
- (4) our unaudited historical consolidated financial statements as of and for the fiscal quarter ended March 29, 2009.

The financial statements in (1)(a) and (b) and (2)(a) were audited by Grant Thornton LLP. The financial statements in (2)(b) were audited by BDO Seidman, LLP. The financial statements in (4) were reviewed by BDO Seidman, LLP.

The financial statements in (1), (2) and (4) above are included elsewhere in this prospectus, all of which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. We have prepared our unaudited historical consolidated financial statements on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary to present fairly our financial position and results of operations for the unaudited periods. The results of operations for any partial period are not necessarily indicative of the results of operations for other periods or for the full fiscal year.

Also included in the tables below are unaudited pro forma combined balance sheet data as of March 29, 2009 and unaudited pro forma combined statement of operations data for the fiscal year ended December 28, 2008 and the fiscal quarter ended March 29, 2009. The summary unaudited pro forma combined statement of operations data for the fiscal year ended December 28, 2008 have been prepared as if

- our issuance and sale of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom,
- the JBS Packerland Acquisition, and
- the acquisition of 50% of the equity interest in Five Rivers not previously owned by JBS Packerland had occurred as of December 31, 2007.

The summary unaudited pro forma combined financial data for the fiscal year ended December 28, 2008 are derived from (1) our audited historical consolidated financial statements for the fiscal year ended December 28, 2008, (2) unaudited historical financial information of Smithfield Beef Group, Inc. for the period from January 1, 2008 through October 22, 2008 and (3) unaudited historical financial information of Five Rivers for the period from January 1, 2008 through October 22, 2008.

The summary unaudited pro forma combined financial data as of and for the fiscal quarter ended March 29, 2009 have been prepared as if our issuance and sale of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom had occurred as of December 30, 2007, and the unaudited pro forma combined balance sheet data as of March 29, 2009 have been prepared as if such event had occurred on March 29, 2009. The unaudited pro forma combined financial data do not give any pro forma effect to the Tasman Acquisition as it was not material and did not constitute a significant subsidiary under Regulation S-X.

The summary unaudited pro forma combined financial data as of and for the fiscal quarter ended March 29, 2009 are derived from our unaudited historical consolidated financial statements for the fiscal quarter ended March 29, 2009.

Historically, Smithfield Beef Group, Inc. and Five Rivers reported their financial results using the last Sunday in April, and March 31, respectively, as their fiscal year ends. Accordingly, the historical amounts presented for JBS Packerland and Five Rivers in the unaudited pro forma combined financial information do not agree with Smithfield Beef Group, Inc.'s and Five Rivers' financial statements appearing elsewhere in this prospectus.

All pro forma financial information in this prospectus is presented for informational purposes only and does not purport to be indicative of what would have occurred had (1) our issuance of our 11.625% senior unsecured notes due 2014, (2) the JBS Packerland Acquisition and (3) the acquisition of 50% of the equity interest in Five Rivers actually been consummated at the beginning of the period presented or as of the balance sheet date, as the case may be, nor is it necessarily indicative of our future combined operating results.

You should read the information contained in this table in conjunction with (i) Unaudited pro forma combined financial data, (ii) Selected historical consolidated financial data, (iii) Management's discussion and analysis of financial condition and results of operations and the financial statements and the accompanying notes thereto included elsewhere in this prospectus.

		JBS USA Holdings, Inc.						
		Predecessor			Successor			
		As of and for the fiscal year ended December 24, 2006	As of and for the 198 days from December 25, 2006 through July 10, 2007	As of and for the 173 days from July 11, 2007 through December 30, 2007	As of and for the fiscal year ended December 28, 2008	As of and for the fiscal quarter ended March 30, 2008	As of and for the fiscal quarter ended March 29, 2009	
in thousands, except earnings per share	Historical	Historical	Historical	Historical	Pro forma(1)	Historical	Historical	Pro forma(2)
	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Statement of operations data:</b>								
Net sales .....	9,691,432	4,970,624	4,988,984	12,362,281	15,445,791	2,461,657	3,196,339	3,196,339
Cost of goods sold .....	9,574,715	4,920,594	5,013,084	11,917,777	14,837,751	2,451,413	3,123,358	3,123,358
Gross profit (loss) .....	116,717	50,030	(24,100)	444,504	608,040	10,244	72,981	72,981
Selling, general and administrative .....	158,783	92,333	60,727	148,785	218,697	31,042	61,598	61,598
Foreign currency transaction loss (gain)(3) .....	(463)	(527)	(5,201)	75,995	75,995	(12,614)	(5,075)	(5,075)
Other income .....	(4,937)	(3,821)	(3,581)	(10,107)	(10,470)	(3,782)	(1,475)	(1,475)
Loss (gain) on sales of property, plant and equipment .....	(666)	(2,946)	182	1,082	1,096	19	180	180
Interest expense, net .....	118,754	66,383	34,340	36,358	82,621	8,108	14,592	24,616
Total expenses .....	271,471	151,422	86,467	252,113	367,939	22,773	69,820	79,844
Income (loss) before income tax expense .....	(154,754)	(101,392)	(110,567)	192,391	240,101	(12,529)	3,161	(6,863)
Income tax expense (benefit) .....	(37,348)	(18,380)	1,025	31,287	47,986	5,613	909	(2,600)
Net income (loss) .....	(117,406)	(83,012)	(111,592)	161,104	192,115	(18,142)	2,252	(4,263)
Basic and diluted net income (loss) per share of common stock(4) .....	N/A	N/A	(1,115,920.00)	1,611,040.00	1,921,150.00	(181,420.00)	22,520.00	(42,630.00)
Basic and diluted pro forma net income (loss) per share of common stock(5) .....	N/A	N/A	□	□	□	□	□	□
<b>Balance sheet data (at period end):</b>								
Cash and cash equivalents .....	83,420	44,673	198,883	254,785	77,365	156,737	154,322	154,322
Accounts receivable, net .....	334,341	365,642	417,375	588,985	438,515	514,160	514,160	514,160
Inventories .....	457,829	487,598	466,756	649,000	541,519	650,026	650,026	650,026
Property, plant and equipment, net .....	487,427	505,172	708,056	1,229,316	716,334	1,241,055	1,241,055	1,241,055
Total assets .....	1,538,597	1,578,350	2,165,815	3,315,571	2,125,696	3,308,815	3,309,315	3,309,315
Long-term debt .....	1,065,553	1,201,975	32,433	806,808	32,347	901,517	933,242	933,242
Total debt .....	1,067,503	1,203,912	810,718	878,319	395,154	977,048	1,008,773	1,008,773
Stockholder's equity .....	(40,090)	(98,818)	838,818	1,388,250	1,281,075	1,394,939	1,394,939	1,394,939
<b>Other financial data:</b>								
EBITDA(6) .....	53,122	9,829	(40,983)	321,123	454,724	14,718	51,105	51,105
Adjusted EBITDA(6) .....	51,993	6,356	(46,002)	398,200	531,815	2,123	66,110	66,110
Cash provided by (used in):								
Operating activities .....	67,823	(110,661)	(107,784)	282,147	(128,911)	51,003	51,003	51,003
Investing activities(7) .....	(11,923)	(27,777)	(39,409)	(783,739)	(15,376)	(206,440)	(206,440)	(206,440)
Financing activities .....	(25,947)	100,492	346,711	571,265	22,135	55,689	55,689	55,689
Capital expenditures .....	47,294	33,700	33,461	118,320	137,958	11,676	35,189	35,189
<b>Other operating data:</b>								
Heads killed, Beef .....	5,808	2,731	2,824	6,872	8,721	1,355	2,025	2,025
Heads killed, Pork .....	12,105	6,511	6,123	13,113	13,113	3,315	3,114	3,114

- As adjusted to (i) give effect to the JBS Packerland Acquisition as if it had occurred at the beginning of the period presented, and (ii) give effect to the sale of \$560.9 million of our 11.625% senior unsecured notes due 2014 and the application of proceeds therefrom as if they had occurred at the beginning of the period presented.
- As adjusted to give effect to the sale of \$560.9 million of our 11.625% senior unsecured notes due 2014 and the use of proceeds therefrom as if it had occurred at the beginning of the period presented, in the case of statement of operations data, and give effect to the sale of all of our 11.625% senior unsecured notes due 2014 and the use of proceeds therefrom as if it had occurred at the end of the period presented, in the case of balance sheet data.

- (3) Foreign currency transaction loss (gain) reflects changes in value of our U.S. dollar-denominated intercompany note payable and receivable within Australia due to changes in the exchange rate between the U.S. dollar and the Australian dollar.
- (4) The capital structure of our predecessor company was significantly different from our capital structure. Prior to this offering, our capital structure consists of 100 common shares issued and outstanding, and we do not have any warrants or options that may be exercised. Accordingly, we do not believe our predecessor company's earnings per share information is meaningful to investors and have not included such information.
- (5) In calculating shares of our common stock outstanding, we give retroactive effect to the stock split to occur immediately prior to completion of this offering.
- (6) EBITDA represents net income (loss) before income tax expense (benefit), interest expense, net, and depreciation and amortization. EBITDA and Adjusted EBITDA are presented as supplemental financial measurements in the evaluation of our business. Adjusted EBITDA as used in this prospectus represents EBITDA as defined in our 11.625% senior unsecured notes due 2014. Adjusted EBITDA, as used in our 11.625% senior unsecured notes due 2014, represents EBITDA as adjusted to exclude loss (gain) on sales of property, plant and equipment, non-recurring items and foreign currency transaction losses (gains). We present Adjusted EBITDA because we believe (1) the ratio of our net debt to Adjusted EBITDA is an important term of our 11.625% senior unsecured notes due 2014, (2) our 11.625% senior unsecured notes due 2014 is material indebtedness to our company and (3) information about this ratio is important to investors to understand our liquidity. See Management's discussion and analysis of financial condition and results of operations—Liquidity and capital resources—Covenant compliance for more information about this ratio. In addition, because EBITDA and Adjusted EBITDA exclude certain non-cash charges, as well as other items that we believe are not representative of our core business operations, we believe that the presentation of these financial measures helps investors to assess our operating performance from period to period and enhances understanding of our financial performance and highlights operational trends. These measures are widely used by investors and rating agencies in the valuation, comparison, rating and investment recommendations of companies. However, the measurement of EBITDA and Adjusted EBITDA in this prospectus may not be comparable to that of other companies in our industry, which limits their usefulness as a comparative measure. EBITDA and Adjusted EBITDA are not measures required by or calculated in accordance with GAAP and should not be considered as a substitute for income (loss) from continuing operations, net income (loss) or any other measure of financial performance reported in accordance with GAAP or as measures of operating cash flows or liquidity. You should rely primarily on our GAAP results, and use this non-GAAP financial measure only supplementally, in making your investment decision.

Each of EBITDA and Adjusted EBITDA is reconciled to net income (loss) as follows:

in thousands	Predecessor		JBS USA Holdings, Inc. Successor					
	As of and for the fiscal year ended December 24, 2006	As of and for the 198 days from December 25, 2006 through July 10, 2007	As of and for the 173 days from July 11, 2007 through December 30, 2007	As of and for the fiscal year ended December 28, 2008	As of and for the quarter ended March 30, 2008	As of and for the fiscal quarter ended March 29, 2009	Pro forma	
	Historical	Historical	Historical	Historical	Pro forma	Historical	Historical	Pro forma
<b>Net income (loss).....</b>	<b>\$ (117,406)</b>	<b>\$ (83,012)</b>	<b>\$ (111,592)</b>	<b>\$ 161,104</b>	<b>\$ 192,115</b>	<b>\$ (18,142)</b>	<b>\$ 2,252</b>	<b>\$ (4,263)</b>
Income tax expense (benefit) .....	(37,348)	(18,380)	1,025	31,287	47,986	5,613	909	(2,600)
Interest expense, net....	118,754	66,383	34,340	36,358	82,621	8,108	14,592	24,616
Depreciation and amortization(a).....	89,122	44,838	35,244	92,374	132,002	19,139	33,352	33,352
<b>EBITDA (unaudited)....</b>	<b>53,122</b>	<b>9,829</b>	<b>(40,983)</b>	<b>321,123</b>	<b>454,724</b>	<b>14,718</b>	<b>51,105</b>	<b>51,105</b>
Loss (gain) on sales of property, plant and equipment.....	(666)	(2,946)	182	1,082	1,096	19	180	180
Foreign currency transaction loss (gain)(b).....	(463)	(527)	(5,201)	75,995	75,995	(12,614)	(5,075)	(5,075)
National Beef termination fee(c)....	□	□	□	□	□	□	19,900	19,900
<b>Adjusted EBITDA (unaudited) .....</b>	<b>\$ 51,993</b>	<b>\$ 6,356</b>	<b>\$ (46,002)</b>	<b>\$ 398,200</b>	<b>\$ 531,815</b>	<b>\$ 2,123</b>	<b>\$ 66,110</b>	<b>\$ 66,110</b>

(a) Depreciation and amortization includes a goodwill impairment charge of \$4.5 million for the fiscal year ended December 24, 2006.

(b) Foreign currency transaction loss (gain) reflects changes in value of our U.S. dollar-denominated intercompany note payable and receivable within Australia due to changes in the exchange rate between the U.S. dollar and the Australian dollar.

(c) On February 18, 2009, we reached an agreement to terminate our efforts to acquire National Beef Packing Company, LLC, or National Beef, effective February 23, 2009. As a result of the termination of the agreement, we paid a breakage fee to the shareholders of National Beef totaling \$19.9 million as full and final settlement of any and all liabilities relating to the potential acquisition in the fiscal quarter ended March 29, 2009.

- (7) Investing activities for the fiscal year ending December 28, 2008 include cash used in connection with the Tasman Acquisition and the JBS Packerland Acquisition.

## Risk factors

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below as well as the other information contained in this prospectus before deciding to purchase any shares of our common stock. These risks could harm our business, operating results, financial condition and prospects. In addition, the trading price of our common stock could decline due to any of these risks and you might lose all or part of your investment.*

### **Risks relating to our business and the beef and pork industries**

***Outbreaks of BSE, Foot-and-Mouth Disease, or FMD, or other species-based diseases in the United States, Australia or elsewhere may harm demand for our products.***

An outbreak of disease affecting livestock, such as BSE, could result in restrictions on sales of products to our customers or purchases of livestock from our suppliers. Also, outbreaks of these diseases or concerns that these diseases may occur and spread in the future, whether or not resulting in regulatory action, can lead to cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on customer demand for our products. In December 2003, the USDA reported the first confirmed case of BSE in the United States. Following the announcement, substantially all international export markets banned the import of U.S. beef. Canada also confirmed its first case of BSE in 2003, leading to the USDA's closure to imports of live cattle from Canada. As a result, export demand declined and negatively impacted the volume of processing at our facilities. The United States currently imports cattle that is 30 months of age or younger from Canada, and Mexico reopened its borders to U.S. beef in April 2004. However, the late June 2005 announcement by the USDA of a second confirmed case of BSE in the United States followed by a third confirmed case in March 2006 has extended some border closures and slowed the re-entry of U.S. beef to some foreign markets. On July 27, 2006, Japan announced it would resume importing some U.S. beef, restricted to cattle that is 20 months or younger from approved U.S. processing plants. In 2006, South Korea reopened its market to boneless beef from the United States. However, disagreements and lack of clarity over import rules and procedures slowed the re-entry of U.S. boneless beef such that such exports to South Korea did not truly commence until 2008. As of March 29, 2009, 16 countries were still closed to U.S. beef. We are currently unable to assess whether or when these remaining foreign markets may fully open to U.S. beef or whether existing open markets may close.

In addition to BSE (in the case of cattle) and FMD (a highly contagious animal disease), cattle, sheep and pigs are subject to outbreaks of other diseases affecting such livestock. An actual outbreak of BSE, FMD or any other diseases, or the perception by the public that such an outbreak has occurred, could result in restrictions on domestic and export sales of our products (even if our products are not actually affected by any disease), cancellations of orders by our customers and adverse publicity. In addition, if the products of our competitors become contaminated, the adverse publicity associated with such an event may lower consumer demand for our products. Any of these events could have a material adverse effect on us.

***Any perceived or real health risks related to the food industry could adversely affect our ability to sell our products. If our products become contaminated, we may be subject to product liability claims and product recalls.***

We are subject to risks affecting the food industry generally, including risks posed by the following:

- food spoilage or food contamination,
- evolving consumer preferences and nutritional and health-related concerns,
- consumer product liability claims,
- product tampering,
- the possible unavailability and expense of product liability insurance, and
- the potential cost and disruption of a product recall.

Our beef products and our pork products in the United States have in the past been, and may in the future be, exposed to contamination by organisms that may produce foodborne illnesses, such as E. coli, Listeria monocytogenes and Salmonella. These organisms are generally found in the environment and, as a result, there is a risk that they could be present in our products. These pathogens can also be introduced to our products through tampering or as a result of improper handling at the further processing, food service or consumer level. Once contaminated products have been shipped for distribution, illness or death may result if the products are not properly prepared prior to consumption or if the pathogens are not eliminated in further processing.

Although we have systems in place designed to monitor food safety risks throughout all stages of our processes, such systems, even when working effectively, may not eliminate the risks related to food safety. As a result, we may voluntarily recall, or be required to recall, our products if they are or may be contaminated, spoiled or inappropriately labeled. For example, on June 25, 2009, we voluntarily recalled 41,280 pounds of beef products that may have been contaminated with E. coli. Following further investigations, on June 28, 2009, we voluntarily expanded this recall to include an additional 380,000 pounds of assorted beef products. The recalled beef products were produced on April 21 and April 22, 2009 at our Greeley, Colorado facility and were shipped to distributors and retailers in multiple states and internationally. While we are unable to ascertain the exact cost we will incur relating to these voluntary recalls, we anticipate the total cost of these recalls to be less than \$4 million. Although no direct link has been confirmed, the Centers for Disease Control and Prevention has stated that cases of E. coli illnesses may be associated with the consumption of these beef products.

We may be subject to significant liability in the jurisdictions in which our products are sold if the consumption of any of our products causes injury, illness or death and such liability may be in excess of applicable liability insurance policy limits. Adverse publicity concerning any perceived or real health risk associated with our products could also cause customers to lose confidence in the safety and quality of our food products, which could adversely affect our ability to sell our products. We could also be adversely affected by perceived or real health risks associated with similar products produced by others to the extent such risks cause customers to lose confidence in the safety and quality of such products generally. Any of these events may have a material adverse effect on us.

***Our pork business could be negatively affected by concerns about A(H1N1) influenza.***

In 2009, A(H1N1) influenza spread to several countries. More than 94,000 cases and over 400 deaths worldwide have been recorded since the outbreak of A(H1N1) influenza in Mexico, and on June 11, 2009, the World Health Organization, or WHO, declared a flu alert level six, signaling a "global pandemic." Although the WHO has stated that there is no relation between those infected with Influenza A(H1N1) and contact with persons living near swine or the consumption of pork, several countries, including Russia, Thailand, Ukraine, China and the Philippines, have stopped importing some or all pork produced in the affected states in the United States and certain other affected regions in the world.

Any further outbreaks of the disease could have a negative impact on the consumption of pork in our markets, and a significant outbreak could negatively affect our Pork net sales and overall financial performance. Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in our international markets. Accordingly, any spread of A(H1N1) influenza, or increasing concerns about this disease could negatively impact our Pork results of operations and our ability to sell pork in existing and new markets.

***Our results of operations may be negatively impacted by fluctuations in the prevailing market prices for livestock.***

We are dependent on the cost and supply of livestock and the selling price of our products and competing protein products, all of which can vary significantly over a relatively short period of time. Livestock prices demonstrate a cyclical nature both seasonally and over periods of years, reflecting the supply of and demand for livestock on the market and the market for other protein products such as livestock and fish. These costs are determined by constantly changing market forces of supply and demand as well as other factors over which we have little or no control. These other factors include:

- environmental and conservation regulations,
- import and export restrictions,
- economic conditions,
- livestock diseases, and
- declining cattle inventory levels in the United States and/or Australia.

We do not generally enter into long-term sales arrangements with our customers with fixed price contracts, and, as a result, the prices at which we sell our products are determined in large part by market conditions. A majority of our livestock is purchased from independent producers who sell livestock to us under marketing contracts or on the open market. A significant decrease in beef or pork prices for a sustained period of time could have a material adverse effect on our net sales revenue and, unless our raw material costs and other costs correspondingly decrease, on our operating margins.

We attempt to manage certain of these risks through the use of risk management and hedging programs, which include forward purchase and sale agreements and futures and options, but these strategies cannot and do not fully eliminate these risks. Furthermore, these programs may also limit our ability to participate in gains from favorable commodity price fluctuations. Also, a portion of our forward purchase and sale contracts are marked-to-market such that the related unrealized gains and losses are reported in earnings on a quarterly basis. Therefore, losses on those contracts would adversely affect our earnings and may cause significant volatility in our quarterly earnings. See "Management's discussion and analysis of financial condition and results of operations" Quantitative and qualitative disclosure about market risk.

Accordingly, we may be unable to pass on all or part of any increased costs we experience from time to time to consumers of our products directly, in a timely manner or at all. Additionally, if we do not attract and maintain contracts or marketing relationships with independent producers and growers, our production operations could be disrupted.

***Our businesses are subject to government policies and extensive regulations affecting the cattle, hog, beef and pork industries.***

Livestock production and trade flows are significantly affected by government policies and regulations. Governmental policies affecting the livestock industry, such as taxes, tariffs, duties, subsidies and import and export restrictions on livestock products, can influence industry profitability, the use of land resources, the location and size of livestock production, whether unprocessed or processed commodity products are traded, and the volume and types of imports and exports.

Our plants and our products are subject to periodic inspections by federal, state and municipal authorities and to comprehensive food regulation, including controls over processed food. Our operations are subject to extensive regulation and oversight by state, local and foreign authorities regarding the processing, packaging, storage, distribution, advertising and labeling of our products, including food safety standards. Our exported products are often inspected by foreign food safety authorities, and any violation discovered during these inspections may result in a partial or total return of a shipment, partial or total destruction of the shipment and costs due to delays in product deliveries to our customers.

Our operations in the United States are subject to extensive regulation and oversight by the USDA, the U.S. Environmental Protection Agency, or the EPA, and other state, local and foreign authorities regarding the processing, packaging, labeling, storage, distribution and advertising of our products. Recently, the food safety practices and procedures of the meat processing industry have been subject to more intense scrutiny and oversight by the USDA. Food safety standards, processes and procedures are subject to the USDA Hazard Analysis Critical Control Point program, which includes compliance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. Wastewater, storm water and air discharges from our operations are subject to extensive regulations by the EPA and other state and local authorities. Our facilities for processing beef, pork and lamb are subject to a variety of federal, state and local laws relating to the health and safety of our employees including those administered by the U.S. Occupational Safety and Health Administration, or OSHA. Our Australian operations also are subject to extensive regulation by the Australian Quarantine Inspection Service, or AQIS, and other state, local and foreign authorities. Additionally, we are routinely affected by new or amended laws, regulations and accounting standards. Our failure to comply with applicable laws and regulations or failure to obtain necessary permits and registrations could delay or prevent us from meeting current product demand or acquiring new businesses, as well as possibly subjecting us to administrative penalties, damages, injunctive relief, fines, injunctions, recalls of our products or seizure of our properties as well as potential criminal sanctions, any of which could materially adversely affect our financial results.

Government policies in the United States, Australia and other jurisdictions may adversely affect the supply, demand for and prices of livestock products, restrict our ability to do business in existing and target domestic and export markets and could adversely affect our results of operations. For example, the European Union has banned the importation of beef raised using hormones. Our facilities in the U.S. and, to a limited extent, our facilities in Australia process cattle that have been raised with hormones and therefore, we are prohibited from exporting our products from these facilities to the European Union. In addition, the Obama administration announced recently that it would seek to ban many routine uses of antibiotics, which are fed to farm animals to encourage rapid growth, in hopes of reducing the spread of dangerous bacteria in humans.

In addition, if we are required to comply with future material changes in food safety regulations, we could be subject to material increases in operating costs and we could be required to implement regulatory changes on schedules that cannot be met without interruptions in our operations.

***Compliance with environmental requirements may result in significant costs, and failure to comply may result in civil liabilities for damages as well as criminal and administrative sanctions and liability for damages.***

Our operations are subject to extensive and increasingly stringent federal, state, local and foreign laws and regulations pertaining to the protection of the environment, including those relating to the discharge of materials into the environment, the handling, treatment and disposition of wastes and remediation of soil and ground water contamination. Failure to comply with these requirements can have serious consequences for us, including criminal as well as civil and administrative penalties, claims for property damage, personal injury and damage to natural resources and negative publicity. We have incurred significant capital and operating expenditures and we expect to incur approximately \$30 million in additional capital expenditures between 2009 and 2012, including for the upgrade our wastewater treatment facilities and remediation of previous contamination from the release of wastewater from certain of our plants under predecessor ownership as described in "Business" Wastewater issues. Additional environmental requirements imposed in the future and/or stricter enforcement of existing requirements could require currently unanticipated investigations, assessments or expenditures and may require us to incur significant additional costs. As the nature of these potential future charges is unknown, we are not able to estimate the magnitude of any future costs, and we have not accrued any reserve for any potential future costs.

Some of our facilities have been in operation for many years. During that time, we and previous owners and operators of these facilities have generated and disposed of wastes that are or may be considered hazardous or may have polluted the soil, surface water or groundwater at our facilities and adjacent properties. Some environmental laws impose strict and, in certain circumstances, joint and several liability for costs of investigation and remediation of contaminated sites on current and former owners and operators of the sites, and on persons who arranged for disposal of wastes at such sites. Discovery of previously unknown contamination of property underlying or in the vicinity of our or our predecessor's present or former properties or manufacturing facilities and/or waste disposal sites could require us to incur material unforeseen expenses. Occurrences of any of these events may have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, increasing efforts to control emissions of greenhouse gases, or GHG, are likely to impact us. In the United States, the EPA recently proposed a mandatory GHG reporting system for certain activities, including manure management systems, which exceed specified emission thresholds. The EPA has also announced a proposed finding relating to GHG emissions that may result in promulgation of GHG air quality standards. The U.S. Congress is considering various options, including a cap and trade system which would impose a limit and a price on GHG emissions and establish a market for trading GHG credits. The House of Representatives recently passed a bill contemplating such a cap and trade system, and the bill is now before the Senate. Certain states have taken steps to regulate GHG emissions that may be more stringent than federal regulations. In Australia, the federal government has proposed a GHG cap and trade system that would cover agricultural operations, including certain of our feedlots, and at least two of our processing plants. Certain states in Australia could also adopt regulations of GHG emissions which are stricter than Australian federal regulations. While it is not possible to estimate the specific impact final GHG regulations will have on our operations, there can be no guarantee that these measures will not have significant additional impact on us.

***Our export and international operations expose us to political and economic risks in foreign countries, as well as to risks related to currency fluctuations.***

Sales outside the United States, primarily to Russia, Japan, Mexico, South Korea, Canada, Taiwan and China, accounted for approximately 21% of our total net sales for the fiscal quarter ended March 29, 2009. Our international activities expose us to risks not faced by companies that limit themselves to the United States. One significant risk is that the international operations may be affected by import restrictions and tariffs, other trade protection measures, and import or export licensing requirements. For example, in 2008, exports to Japan from our processing plant in Wisconsin were suspended, as were exports to South Korea from our Colorado plant and to Russia from one of our pork production plants. In April 2009, Russia halted imports from our pork facility in Louisville, Kentucky. Our future financial performance will depend significantly on economic, political and social conditions in our and JBS S.A.'s principal export markets (the European Union, Russia, the United States, Japan, Mexico, Canada, Taiwan, China and the Middle East). Other risks associated with our international activities include:

- changes in foreign currency exchange rates and inflation in the foreign countries in which we operate;
- exchange controls;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets;
- potentially negative consequences from changes in regulatory requirements;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex international laws, treaties, and regulations, including, without limitation, the Foreign Corrupt Practices Act;

- tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;
- potentially negative consequences from changes in tax laws; and
- distribution costs, disruptions in shipping or reduced availability of freight transportation.

While we attempt to manage certain of these risks through the use of risk management and hedging programs, which include futures and options, these strategies cannot and do not fully eliminate these risks. An occurrence of any of these events could negatively impact our results of operations and our ability to transact business in existing or developing markets.

***Deterioration of economic conditions could negatively impact our business.***

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Any such changes could adversely affect the demand for our products both in domestic and export markets, or the cost and availability of our needed raw materials, cooking ingredients and packaging materials, thereby negatively affecting our financial results.

The recent disruptions in credit and other financial markets and deterioration of national and global economic conditions, could, among other things:

- negatively impact global demand for protein products, which could result in a reduction of sales, operating income and cash flows;
- cause our customers or end consumers of our products to "trade down" to other protein sources such as chicken or fish, or to cuts of beef or pork that are less profitable, putting pressure on our profit margins;
- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future;
- cause our lenders to depart from prior credit industry practice and make more difficult or expensive the granting of any technical or other waivers under our debt agreements to the extent we may seek them in the future;
- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts or non-performance by suppliers or counterparties;
- decrease the value of our investments; and
- impair the financial viability of our insurers.

***Failure to successfully implement our business strategies may affect our plans to increase our revenue and cash flow.***

Our growth and financial performance depends, in part, on our success in implementing numerous elements of our strategies that are dependent on factors that are beyond our control.

We may be unable to fully or successfully implement our strategies. The beef and pork industries and the food distribution industry are particularly influenced by changes in customer preferences, governmental regulations, regional and national economic conditions, demographic trends and sales practices by retailers, among other factors. Some aspects of our strategy require an increase in our operating costs and a significant increase in capital expenditures that may not be offset by a corresponding increase in revenue, resulting in a decrease in our operating margins.

For example, we are pursuing a global direct distribution strategy as we seek to enhance our operating margins. The implementation of this strategy will require us to make substantial investments in order to build a distribution center network, as well as related operating expenses. There can be no assurance that the increased sales levels and enhanced margins that we anticipate will result from this strategic initiative, or that we will achieve an adequate return on the required investment. In addition, this strategy may expose us to direct competition with our existing third party distribution customers in some segments, which could affect our relationship with these customers.



***Our business strategies require substantial capital and long-term investments, which we may be unable to fund.***

Our business strategies will require substantial additional capital investment following this offering, including, for example, our strategy of creating a global direct distribution network. To the extent that the net proceeds from this offering and cash generated internally and cash available under our revolving credit facility are not sufficient to fund our capital requirements, we will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be available on satisfactory terms, including as a result of adverse macroeconomic conditions. Our parent company, JBS S.A., has invested over \$1.4 billion in equity capital in us since the Swift Acquisition in 2007. In addition, since July 11, 2007, we have invested \$187.0 million in our U.S. and Australian manufacturing operations, excluding the JBS Packerland and Tasman Acquisitions. Our parent company may not agree to provide us with additional financing in the future. Our parent company is a public company in Brazil and may in the future have interests that conflict or compete with ours. In addition, we are limited in our ability to incur indebtedness in certain circumstances under the terms of our outstanding indebtedness under our revolving credit facility, the indenture governing our 11.625% senior unsecured notes issued by us earlier this year and the indentures governing the 10.50% notes due 2016 in an aggregate principal amount of \$300.0 million issued by JBS S.A. in 2006.

We may be unable to obtain sufficient additional capital in the future to fund our capital requirements and our business strategy at acceptable costs. If we are unable to access additional capital on terms acceptable to us, we may not be able to fully implement our business strategy, which may limit the future growth and development of our business. In addition, equity financings could result in dilution to our stockholders, and equity or debt securities issued in future financings may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital.

Implementation of any of our strategies depends on factors that are beyond our control, such as changes in the conditions of the markets in which we operate, actions taken by our competitors, or existing laws and regulations at any time by U.S. federal government or by any other state, local or national government. Our failure to successfully implement any part of our strategy may materially adversely impact our business, financial condition and results of operations.

***We may not be able to successfully integrate any growth opportunities we may undertake in the future.***

We intend to pursue selected growth opportunities in the future as they arise. These types of opportunities may expose us to successor liability relating to actions involving any acquired entities, their respective management or contingent liabilities incurred prior to our involvement. A material liability associated with these types of opportunities, or our failure to successfully integrate any acquired entities into our business, could adversely affect our reputation and have a material adverse effect on us.

We may not be able to successfully integrate any growth opportunities we may undertake in the future or successfully implement appropriate operational, financial and administrative systems and controls to achieve the benefits that we expect to result therefrom. These risks include: (1) failure of the acquired entities to achieve expected results, (2) possible inability to retain or hire key personnel of the acquired entities and (3) possible inability to achieve expected synergies and/or economies of scale. In addition, the process of integrating businesses could cause interruption of, or loss of momentum in, the activities of our existing business. The diversion of our management's attention and any delays or difficulties encountered in connection with the integration of these businesses could negatively impact our business and results of operations.

***We face competition in our business, which may adversely affect our market share and profitability.***

The beef and pork industries are highly competitive. Competition exists both in the purchase of live cattle and hogs and in the sale of beef and pork products. In addition, our beef and pork products compete with a number of other protein sources, including poultry and fish. We compete with numerous beef producers, including companies based in the United States (Tyson Foods Inc., National Beef Packing Company, LLC and Cargill Inc.) and in Australia (Teys Bros Pty Ltd. and Nippon Meat Packers Ltd.), as well as pork producers (Smithfield Foods, Inc., Tyson Foods Inc. and Cargill Inc.). The principal competitive factors in the beef and pork processing industries are operating efficiency and the availability, quality and cost of raw materials and labor, price, quality, food safety, product distribution, technological innovations and brand loyalty. Our ability to be an effective competitor depends on our ability to compete on the basis of these characteristics. Some of our competitors have greater financial and other resources and enjoy wider recognition for their consumer branded products. We may be unable to compete effectively with these companies, and if we are unable to remain competitive with these beef and pork producers in the future, our market share may be adversely affected.

***Changes in consumer preferences could adversely affect our business.***

The food industry, in general, is subject to changing consumer trends, demands and preferences. Our products compete with other protein sources, including poultry and fish. Trends within the food industry frequently change, and our failure to anticipate, identify or react to changes in these trends could lead to reduced demand and prices for our products, among other concerns, and could have a material adverse effect on our business, financial condition, results of operations and market price of our common stock.

***Our business could be materially adversely affected as a result of adverse weather conditions or other unanticipated extreme events in our areas of operations.***

Changes in the historical climate in the areas in which we operate could have a material adverse effect on our business. For instance, the timing of delivery to market and availability of livestock for our grass fed division in Australia is dependent on access to range lands and paddocks which can be negatively impacted by periods of extended drought. In addition, our cattle feeding operations in Australia and meat packing facilities in the U.S. and Australia rely on large volumes of potable water for the raising of healthy livestock and the fabrication of our meat products. Potable water is generally available from municipal supplies and/or naturally replenished aquifers, the access to which and availability of which could be affected in the event rainfall patterns change, aquifers become depleted or contaminated and municipal supplies are not maintained. While we own substantial water rights, occurrences of any of these events, or inability to enforce existing or secure additional water rights in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Natural disasters, fire, bioterrorism, pandemics or extreme weather, including floods, excessive cold or heat, hurricanes or other storms, could impair the health or growth of livestock or interfere with our operations due to power outages, fuel shortages, damage to our production and processing facilities or disruption of transportation channels, among other things. Any of these factors, as well as disruptions in our information systems, could have an adverse effect on our financial results.

***Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business.***

As of March 29, 2009 we had a total of approximately 31,900 employees worldwide. A majority of these employees are represented by labor organizations, and our relationships with these employees are governed by collective bargaining agreements. In the U.S., we have 11 collective bargaining or other labor agreements expiring in 2009 and 2010, covering approximately 24,300 employees. In Australia, we have 20 collective bargaining or other collective labor agreements, 14 of which expire between 2010 and 2014. Upon the expiration of existing collective bargaining agreements or other collective labor agreements, we may not reach new agreements without union action and any such new agreements may not be on terms satisfactory to us. In addition, any new agreements may be for shorter durations than those of our historical agreements. Moreover, additional groups of currently non-unionized employees may seek union representation in the future. If we are unable to negotiate acceptable collective bargaining agreements, we may become subject to union-initiated work stoppages, including strikes.

Additionally, it is expected that the Employee Free Choice Act, which was passed in the U.S. House of Representatives in 2007, will be reintroduced in the new U.S. Congress. If reintroduced and enacted in its most recent form, the Employee Free Choice Act could make it significantly easier for union organizing drives to be successful. The Employee Free Choice Act could also give third-party arbitrators the ability to impose terms, which may be harmful to us, of collective bargaining agreements if the relevant company and union are unable to agree to the terms of a collective bargaining agreement. This legislation could increase the penalties we may incur if we engage in labor practices in violation of the National Labor Relations Act. Any significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

On December 12, 2006, at which time we were under our previous private equity ownership, agents from the U.S. Department of Homeland Security's Immigration and Customs Enforcement division, or ICE, and other law enforcement agencies conducted on-site employee interviews at all of our production facilities except with respect to our production facilities located in Louisville, Kentucky and Santa Fe Springs, California, in connection with an investigation of the immigration status of an unspecified number of our workers. Approximately 1,300 individuals were detained by ICE and removed from our U.S. domestic labor force. To date, no civil or criminal charges have been filed by the U.S. government against us or any of our current or former management employees. On December 12, 2006, after a six- to seven-hour suspension of operations due to the employee interview process, we resumed production at all facilities in the United States, but at reduced output levels. We refer to this event in this prospectus as either the ICE incident or the ICE event. We estimate that the ICE event resulted in additional costs of approximately \$82 million, as well as reduced revenues at the affected facilities, as lower levels of experienced staffing resulted in lower volumes of beef that met processing specifications. We resumed normal production at our pork processing facilities in March 2007 and reported in May 2007 that we had returned to standard staffing levels at all of our beef processing facilities. We have enhanced our previous hiring and legal compliance practices to mitigate this risk; however, we may face similar disruptions in the future at our U.S. facilities, our enhanced hiring practices may expose us to an increased risk of lawsuits related to such practices, and our labor costs may be negatively affected as a result.

***The consolidation of our customers could negatively impact our business.***

Our customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years, and consolidation is expected to continue throughout the United States and in other major markets. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories, opposing price increases, and demanding lower pricing, increased promotional programs and specifically tailored products. These customers also may use shelf space currently used for our products for their own private label products. If we fail to respond to these trends, our volume growth could slow or we may need to lower prices or increase promotional spending for our products, any of which would adversely affect our financial results.

***We are dependent on certain key members of our management.***

Our operations, particularly in connection with the implementation of our strategies and the development of our operations, depend on certain key members of our management. If any of these key management personnel leaves us, our results of operations and our financial condition may be adversely affected.

***Our debt could adversely affect our business.***

On April 27, 2009, our wholly owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc. issued \$700.0 million in senior unsecured notes due May 2014 bearing interest at 11.625%. As of March 29, 2009, after giving effect to our issuance and sale of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom, we have total outstanding consolidated debt on our balance sheet of approximately \$1.0 billion.

While our level of indebtedness is lower than certain of our competitors, our consolidated debt could:

- make it difficult for us to satisfy our respective obligations;
- limit our ability to obtain additional financing to operate our business;
- require us to dedicate a substantial portion of our cash flow to payments on our debt, reducing our ability to use our cash flow to fund working capital, capital expenditures and other general corporate requirements;
- limit our flexibility to plan for and react to changes in our business and the industry in which we operate;
- place us at a competitive disadvantage relative to some of our competitors that have less debt than us; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates, lower cattle and hog prices or a downturn in our business or the economy.

In addition to our existing debt, we are not prohibited from incurring significantly more debt, which could intensify the risks described above. The terms of the indenture governing our 11.625% senior unsecured notes due 2014 permit us to incur significant additional indebtedness in the future, including secured debt. We may borrow additional funds to fund our capital expenditures, working capital needs or other purposes, including future acquisitions.

## Risks related to our common stock and this offering

***We are controlled by JBS S.A., which is a publicly traded company in Brazil, whose interest in our business may be different than yours.***

We are a wholly owned indirect subsidiary of JBS S.A., a publicly traded company in Brazil. JBS S.A. will indirectly own approximately 75% of our outstanding common stock after the consummation of this offering (or 100% if the international underwriters exercise their over-allotment in full). The Batista family indirectly owns and controls approximately 50.1% of the voting equity capital of JBS S.A. Prior to this offering, all of our directors and our president and chief executive officer were members of the Batista family. Members of the Batista family are also officers of JBS S.A. Accordingly, JBS S.A. is, and will continue to be, able to exercise significant influence over our business policies and affairs, including the composition of our board of directors, which has the authority to direct our business and appoint and remove our officers, and over any action requiring the approval of our stockholders, including the adoption of amendments to our certificate of incorporation and bylaws, which govern the rights attached to our shares of common stock, and the approval of mergers or sales of substantially all of our assets.

JBS S.A. and its subsidiaries comprise the largest exporter of canned beef in the world. With respect to business opportunities relating to customers or markets which would otherwise be available to both us and JBS S.A.'s other subsidiaries, JBS S.A. may not permit us to pursue those opportunities or JBS S.A.'s other subsidiaries may directly compete with us for those opportunities. For example, in January 2007, JBS S.A. acquired SB Holdings and its subsidiaries, which comprise one of the largest distributors of processed beef in the United States. This acquisition provided JBS S.A. (and not us) with access to the processed beef market in the United States through two distribution centers located in Fort Lauderdale, Florida and Newport Beach, California. JBS S.A. is a public company in Brazil, and therefore, its directors have their own independent fiduciary duties and their interests may conflict or compete with those of our company.

The concentration of ownership of our shares may also delay, defer or even prevent an acquisition by a third party or other change of control of our company in a transaction that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock, even if you perceive such transaction to be in the best interests of minority stockholders. This concentration of ownership may also adversely affect our stock price. For additional information regarding the share ownership of, and our relationship with, JBS S.A., you should read the information under the headings "Business" Description of business segments" Beef segment" Global exports," "Principal and selling stockholder"and "Certain relationships and related party transactions."

***Our directors who have relationships with our controlling stockholder may have conflicts of interest with respect to matters involving our company.***

Upon completion of this offering, the majority of our directors will be affiliated with JBS S.A. These persons will have fiduciary duties to both us and JBS S.A. As a result, they may have real or apparent conflicts of interest on matters affecting both us and JBS S.A., which in some circumstances may have interests adverse to ours. It may also limit the ability of these directors to participate in consideration of certain matters. In addition, as a result of JBS S.A.'s ownership interest, conflicts of interest could arise with respect to transactions involving business dealings between us and JBS S.A. including, but not limited to, potential acquisitions of businesses or properties, the issuance of additional securities, the payment of dividends by us and other matters.

***We will be a "controlled company" within the meaning of the NYSE rules, and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.***

Upon completion of this offering, JBS S.A. will own more than 50% of the total voting power of our common shares and we will be a "controlled company" under the New York Stock Exchange, or NYSE, corporate governance standards. As a controlled company, exemptions under the NYSE standards will free us from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors, as defined under the rules of the NYSE;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

Accordingly, for so long as we are a "controlled company," you will not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

***There has been no prior public market for our common stock and the trading price of our common stock may be adversely affected if an active trading market in our common stock does not develop.***

Prior to this offering, there has been no public market for our common stock, and an active trading market may not develop or be sustained upon the completion of this offering. We cannot predict the extent to which investor interest will lead to the development of an active trading market in shares of our common stock or whether such a market will be sustained. The initial public offering price of the common stock offered in this prospectus was determined through our negotiations with the underwriters and may not be indicative of the market price of the common stock after this offering. The market price of shares of our common stock may decline below the initial public offering price, and you may not be able to sell your shares of common stock at or above the initial public offering price, or at all.

***Our stock price may be volatile, and you may be unable to resell your shares at or above the offering price or at all.***

The market price of our common stock after this offering will be subject to significant fluctuations in response to, among other factors, variations in our operating results and market conditions specific to our industry. The combination of the relatively limited number of locations that we operate and the significant investment associated with each new unit may cause our operating results to fluctuate significantly, which could add to the volatility of our stock price. Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. Future market fluctuations may negatively affect the market price of our common stock.

***Future sales of shares of our common stock in the public market could cause our stock price to fall significantly even if our business is profitable.***

Upon the completion of this offering, we will have outstanding \_\_\_\_\_ shares of common stock (or approximately \_\_\_\_\_ shares if the international underwriters exercise their over-allotment option in full). Of these shares, the shares of common stock offered in this prospectus will be freely tradable without restriction in the public market, unless purchased by our affiliates. We expect that the remaining \_\_\_\_\_ shares of common stock will become available for resale in the public market as shown in the chart below. Our officers, directors and the holders of all of our outstanding shares of common stock will sign lock-up agreements pursuant to which they have agreed not to sell, transfer or otherwise dispose of any of their shares for a period of 180 days following the date of this prospectus, subject to extension in the case of an earnings release or material news or a material event relating to us. The underwriters may, in their sole discretion and without notice, release all or any portion of the common stock subject to lock-up agreements. The underwriters are entitled to waive the underwriter lock-up provisions at their discretion prior to the expiration dates of such lock-up agreements.

Immediately following the consummation of this offering, our shares of common stock will become available for resale in the public market as follows:

<b>Number of shares</b>	<b>Percentage</b>	<b>Date of availability for resale into the public market</b>
	<input type="checkbox"/>	Upon the effectiveness of this prospectus
	<input type="checkbox"/>	180 days after the date of this prospectus, of which approximately _____ shares of our common stock are subject to holding period, volume and other restrictions under Rule 144

As restrictions on resale end, the market price of our common stock could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of our common stock or other securities. Following the completion of this offering, we intend to file a registration statement on Form S-8 to register the total number of common stock reserved for issuance under our stock option plan.

***Actual dividends paid on our shares may not be consistent with the dividend policy adopted by our board of directors.***

Our board of directors will adopt a dividend policy pursuant to which any future determination relating to dividend policy will be made at its discretion and will depend on a number of factors, including our business and financial condition, any covenants under our debt agreements and our parent company's legal obligation to distribute dividends. Under Brazilian law, our parent company, JBS S.A., is required to pay dividends equal to 25% of its net income (as calculated under generally accepted accounting principles in Brazil, subject to certain adjustments mandated by Brazilian corporate law and other exceptions). However, our board of directors may, in its discretion and for any reason, amend or repeal this dividend policy. Our board of directors may increase or decrease the level of dividends provided for in our dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to our common shares, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, distribution of dividends made by our subsidiaries, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. For the foregoing reasons, you will not be able to rely on dividends to receive a return on your investment. In addition, to the extent that we pay dividends, the amounts distributed to our shareholders may not be available to us to fund future growth and may affect our other liquidity needs.

***You will incur immediate and substantial dilution.***

The initial public offering price of our common stock is substantially higher than the net tangible book values per share of outstanding common stock prior to completion of the offering. Based on our net tangible book value as of March 29, 2009 and upon the issuance and sale of \_\_\_\_\_ shares of common stock by us at an assumed initial public offering price of \_\_\_\_\_ per share (the midpoint of the initial public offering price range indicated on the cover of this prospectus), if you purchase our common stock in this offering, you will pay more for your shares than the amounts paid by our existing stockholders for their shares and you will suffer immediate dilution of approximately \_\_\_\_\_ per share in net tangible book value. We also intend to implement a stock option plan that will grant options to our executive officers to purchase common stock with exercise prices that may be below the estimated initial public offering price of our common stock. To the extent that these options are granted and exercised, you will experience further dilution.

***We will have broad discretion in applying the net proceeds of this offering and we may not use those proceeds in ways that will ultimately enhance the market value of our common stock.***

We have broad discretion in applying any net proceeds we will receive in this offering. As part of your investment decision, you will not be able to assess or direct how we apply these net proceeds. If we do not apply these funds effectively, we may lose significant business opportunities. Furthermore, our stock price could decline if the market does not view our use of the net proceeds from this offering favorably. A significant portion of the offering is by selling stockholders, and we will not receive proceeds from the sale of the shares offered by them.

***Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management.***

Our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law will contain provisions that could act to discourage, delay or prevent a change of control of our company or changes in our management. These provisions:

- authorize the issuance of \_\_\_\_\_blank check\_\_\_\_\_preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- provide for a classified board of directors (three classes);
- provide that stockholders may only remove directors for cause;
- provide that any vacancy on our board of directors, including a vacancy resulting from an increase in the size of the board, may only be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum;
- provide that a special meeting of stockholders may only be called by our board of directors or by the chairman of the board of directors;
- provide that action by written consent of the stockholders may be taken only if JBS S.A. and any of its subsidiaries own at least 50% of our outstanding shares of common stock;

- limit the liability of, and provide indemnification to, our directors and officers;
- limit the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting; and
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

These provisions may act to prevent a change of control, a change in our management or other actions, including actions that our stockholders may deem advantageous. These provisions may also have a negative effect on the trading price of our stock.

## Special note regarding forward-looking statements and industry data

All statements included in this prospectus, other than statements of historical fact, that address, activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “project,” “forecast,” “plan,” “may,” “will,” “should,” “could,” “expect” and other words of similar meaning. In particular, these include, but are not limited to, statements of our current views and estimates of future economic circumstances, industry conditions in domestic and international markets and our performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties that could cause the actual results and experiences of us to differ materially from the anticipated results and expectations expressed in such forward-looking statements. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Except as required by law, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may cause actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements are the following:

- outbreaks of livestock disease, or product contamination or recall concerns;
- fluctuations in live cattle and hog prices;
- fluctuations in the selling prices of beef and pork products;
- developments in, or changes to, the laws, regulations and governmental policies governing our business and products or failure to comply with them, including environmental and sanitary liabilities;
- currency exchange rate fluctuations, trade barriers, exchange controls, political risk and other risks associated with export and foreign operations;
- deterioration of economic conditions;
- our strategic direction and future operation;
- our ability to implement our business plan, including our ability to arrange financing when required and on reasonable terms and the implementation of our financing strategy and capital expenditure plan;
- our acquisitions, joint ventures, strategic alliances or divestiture plans;
- the competitive nature of the industry in which we operate and the consolidation of our customers;
- customer demands and preferences;
- adverse weather conditions in our areas of operations;
- continued access to a stable workforce and favorable labor relations with employees;
- consolidation of our customers;
- our dependence on key members of our management;
- interests of our controlling shareholders;
- the declaration or payment of dividends or interest attributable to shareholders’ equity;
- the risk factors discussed under the heading “Risk factors”;
- other factors or trends affecting our financial conditions or results of operations; and
- other statements contained in this prospectus regarding matters that are not historical facts.



Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond our control, including those set forth under [Risk factors](#).

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All forward-looking statements contained in this prospectus are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made.

# Basis of presentation

## Industry data

Certain market and industry data included in this prospectus have been obtained from third-party sources that we believe to be reliable, such as the United States Department of Agriculture, or USDA, Meat and Livestock Australia Limited, and the U.S. Meat Export Federation. We have not independently verified such third-party information and cannot assure you of its accuracy or completeness. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed above and in [Risk factors](#).

## Certain definitions

References in this prospectus to [\\$](#) or [U.S.](#) are to U.S. dollars. References in this prospectus to [A\\$](#) are to Australian dollars.

## Brands

*Swift*, *Swift Premium*, *Swift Angus Select*, *Swift Premium Black Angus*, *Miller Blue Ribbon Beef* and *G.F. Swift 1855* are brands that belong to us. This prospectus also includes trademarks, trade names and trade dress of other companies. Use or display by us of other parties' trademarks, trade names or trade dress or products is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, the trademark, trade name or trade dress owners. Solely for the convenience of the reader, in some cases we refer to our brands in this prospectus without the [®](#) symbol, but these references are not intended to indicate in any way that we will not assert our rights to these brands to the fullest extent permitted by law.

## Rounding

Certain figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## Use of proceeds

We estimate that the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of □ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately □ million. A □1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by □ million, assuming the number of shares offered by us, as set forth on the front cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

We intend to use a portion of our net proceeds from this offering to selectively pursue additional value-enhancing growth opportunities as they arise. For example, during the next five years, we intend to make substantial investments in order to significantly expand our direct distribution network. We also intend to use a portion of our net proceeds from this offering for working capital and general corporate purposes. However, our management will have broad discretion in the application of these proceeds and investors will be relying on the judgment of our management regarding their application. Pending their use, we plan to invest our net proceeds from this offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

We will not receive any proceeds from the sale of our common stock by the selling stockholder, including any proceeds resulting from the underwriters' exercise of their option to purchase additional shares from the selling stockholder.

## Dividend policy

Our board of directors will adopt a dividend policy pursuant to which any future determination relating to dividend policy will be made at its discretion and will depend on a number of factors, including our business and financial condition, and any covenants under our debt agreements and our parent company's legal obligation to distribute dividends described below. However, our board of directors may, in its discretion and for any reason, amend or repeal this dividend policy. Our board of directors may increase or decrease the level of dividends provided for in our dividend policy or entirely discontinue the payment of dividends. Future dividends with respect to our common shares, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, distribution of dividends made by our subsidiaries, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant.

Our parent company, JBS S.A., is required by the Brazilian corporate law to distribute on an annual basis dividends representing 25% of its net income (as calculated under generally accepted accounting principles in Brazil, subject to certain adjustments mandated by Brazilian corporate law) unless its board of directors has determined, in its discretion, that such distribution would not be advisable or appropriate in light of its financial condition.

# Capitalization

The following table sets forth our consolidated cash and cash equivalents and capitalization as of March 29, 2009 on:

- an actual basis;
- a pro forma basis to give effect to the offering and sale of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom as if it had occurred on March 29, 2009; and
- a pro forma as adjusted basis to give effect to
  - (1) the issuance and sale of \_\_\_\_\_ shares of our common stock sold by us in this offering and our receipt of approximately \_\_\_\_\_ million in net proceeds from such sale, based on an assumed public offering price of \_\_\_\_\_ per share, the midpoint of the range set forth on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us, and
  - (2) a \_\_\_\_\_-for-one stock split to take place immediately prior to completion of this offering.

The information below is illustrative only, and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

(in thousands, except shares data)	As of March 29, 2009		
	Actual	Pro forma	Pro forma as adjusted
Cash and cash equivalents .....	156,737	154,322	
Indebtedness:			
Short-term:			
Secured credit facility .....	36,828	36,828	36,828
Unsecured credit facility .....	34,600	34,600	34,600
Total short-term debt: .....	71,428	71,428	71,428
Current portion of long-term debt:			
Installment note payable .....	1,008	1,008	1,008
Capital lease obligations .....	3,095	3,095	3,095
Total current portion of long-term debt: .....	4,103	4,103	4,103
Long-term:			
Intercompany loans .....	658,597	139,000	139,000
Senior secured revolving credit facility .....	210,187	110,187	110,187
Capital lease obligations .....	22,940	22,940	22,940
11.625% senior unsecured notes due 2014 .....		651,322	651,322
Installment note payable .....	9,793	9,793	9,793
Total long-term debt: .....	901,517	933,242	933,242
Total debt: .....	977,048	1,008,773	1,008,773
Stockholders' equity:			
Common stock, \$0.01 par value per share (actual, authorized 500,000,000 shares, 100 shares issued and outstanding; pro forma, authorized 500,000,000 shares, 100 shares issued and outstanding; pro forma as adjusted, _____ authorized shares, _____ shares issued and outstanding) .....			
Paid-in capital .....	1,400,159	1,400,159	
Accumulated comprehensive income (loss) .....	(56,984)	(56,984)	
Retained earnings .....	51,764	51,764	
Total stockholders' equity .....	1,394,939	1,394,939	
Total capitalization (long-term debt plus stockholders' equity) .....	2,296,456	2,328,181	

A \$1.00 decrease or increase in the initial public offering price would result in an approximately \_\_\_\_\_ million decrease or increase in each of pro forma as adjusted total stockholders' equity and total capitalization. The above table does not reflect \_\_\_\_\_ shares of common stock reserved for future issuance under our stock option plan.

## Dilution

If you invest in our common stock, you will be diluted to the extent the initial public offering price per share of our common stock exceeds the net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of March 29, 2009 was approximately  million, or  per share of common stock. Net tangible book value per share presented below represents the amount of our tangible net worth, or total tangible assets less total liabilities as of March 29, 2009, divided by the number of shares of our common stock outstanding immediately prior to completion of this offering after giving effect to a -for-one stock split of our common stock that will occur immediately prior to consummation of this offering.

After giving effect to the issuance and sale of  shares of our common stock sold by us in this offering and our receipt of approximately  million in net proceeds from such sale, based on an assumed public offering price of  per share, the midpoint of the range set forth on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us, our as adjusted net tangible book value per share as of March 29, 2009 would have been approximately  million, or  per share. This amount represents an immediate increase in net tangible book value of  to existing stockholders and an immediate dilution in net tangible book value of  per share to new investors purchasing shares of our common stock in this offering. Dilution per share is determined by subtracting the net tangible book value per  share as adjusted for this offering from the amount of cash paid by a new investor for a share of our common stock. Net tangible book value is not affected by the sale of shares of our common stock offered by the selling stockholder.

The following table illustrates the per share dilution:

	<b>Per share</b>
Assumed initial public offering price per share .....	<input type="text"/>
Net tangible book value per share as of March 29, 2009..... <input type="text"/>	<input type="text"/>
Increase in net tangible book value per share attributable to existing investors..... <input type="text"/>	<input type="text"/>
Adjusted net tangible book value per share after this offering.....	<input type="text"/>
Dilution per share to new investors.....	<input type="text"/>

A 1.00 increase (decrease) in the assumed initial public offering price of  per share would increase (decrease) our net tangible book value by , the net tangible book value per share after this offering by  and the dilution per share to new investors by , assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The foregoing discussion and table do not give effect to shares of common stock that we will issue if the international underwriters exercise their over-allotment option in full. If the underwriters exercise their option to purchase additional shares of common stock in full, the as adjusted net tangible book value per share as of March 29, 2009 would be approximately  per share and the dilution per share to new investors would be  per share.

The following table summarizes, as of March 29, 2009, the number of shares of our common stock we issued and sold, the total consideration we received and the average price per share paid to us by existing stockholders prior to this offering, and by new investors purchasing shares of common stock in this offering. The table assumes an initial public offering price of  per share (the midpoint of the price range set forth on the cover page of this prospectus):

	<u>Shares purchased</u>		<u>Total consideration</u>		<u>Average price per share</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
Existing stockholders .....		<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
New investors in this offering .....		<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total .....		100.0 <input type="text"/>	100.0 <input type="text"/>	<input type="text"/>	<input type="text"/>

The number of shares of our common stock held by new investors will increase to , or approximately  of the total number of shares of our common stock outstanding after this offering, and the number of shares held by the selling stockholder, will decrease to  shares, or approximately  of the total number of shares of our common stock outstanding after this offering. If the international underwriters exercise their over-allotment option to purchase additional shares of common stock in full, the number of shares of our common stock held by new investors will increase to , or approximately  per share and the dilution per share to new investors would be  per share.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in further dilution to our stockholders.

## Selected historical consolidated financial data

The following tables set forth our selected historical consolidated financial data at the dates and for the periods indicated. Our selected historical consolidated financial information contained in this prospectus is derived from

- (1) our predecessor's unaudited historical consolidated financial statements as of and for the fiscal years ended May 30, 2004, May 29, 2005 and May 28, 2006,
- (2) our predecessor's audited historical consolidated financial statements as of and for
  - (a) the fiscal year ended December 24, 2006, and
  - (b) the 198 days from December 25, 2006 through July 10, 2007 (the date immediately preceding the Swift Acquisition),
- (3) our audited historical consolidated financial statements as of and for
  - (a) the 173 days from July 11, 2007 through December 30, 2007, and
  - (b) the fiscal year ended December 28, 2008,
- (4) our unaudited historical consolidated financial statement for the fiscal quarter ended March 30, 2008, and
- (5) our unaudited historical financial statements as of and for the fiscal quarter ended March 29, 2009.

The financial statements in (1) and (4) were reviewed by Grant Thornton LLP, and the financial statements in (2)(a) and (b) and (3)(a) were audited by Grant Thornton LLP. The financial statements in (3)(b) were audited by BDO Seidman, LLP. The financial statements in (5) were reviewed by BDO Seidman, LLP.

The financial statements in (2), (3) and (5) above are included elsewhere in this prospectus and have been prepared in accordance with generally accepted accounting principles in the United States. Our current fiscal year is based on the 52- or 53-week period ending on the last Sunday in December. Our predecessor company's fiscal year was based on the 52- or 53-week period ending on the last Sunday in May. The Swift Acquisition closed on July 11, 2007, and the financial statements for the 198 days from December 25, 2006 to July 10, 2007 represent the period between the end of the fiscal year ended December 24, 2006 and the day prior to the closing of the Swift Acquisition. The periods ended prior to July 11, 2007 are referred to as the "predecessor" periods. The financial statements for the 173-day period from July 11, 2007 through December 30, 2007 represent the period from the date of the Swift Acquisition through December 30, 2007. The periods ended subsequent to July 10, 2007 are referred to as the "successor" periods.

The results of operations for any partial period are not necessarily indicative of the results of operations for other periods or for the full fiscal year. We have prepared our unaudited historical consolidated financial statements on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary to present fairly our financial position and results of operations for the unaudited periods.

On May 26, 2006, we completed the sale of our non-fed cattle business, including our operating plant assets in Omaha, Nebraska and our idled Nampa, Idaho assets. Due to our significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants have been reflected in our continuing operations through the fiscal year ended December 24, 2006.

Our consolidated results of operations for the 198-day period ended July 10, 2007 and the 173-day period ended December 30, 2007 are not fully comparable to our results for the fiscal year ended December 24, 2006 due to the change in cost basis and recapitalization that occurred on July 11, 2007.

Our consolidated results of operations for the fiscal year ended December 28, 2008 are not fully comparable to our results of operations for the combined 198-day period ended July 10, 2007 and the 173-day period ended December 30, 2007 due to the (1) change in cost basis and recapitalization that occurred on July 11, 2007, (2) Tasman Acquisition that closed on May 2, 2008 and (3) JBS Packerland Acquisition that closed on October 23, 2008.

Our consolidated results of operations for the fiscal quarter ended March 29, 2009 are not fully comparable to our results of operations for the fiscal quarter ended March 30, 2008 due to the (1) Tasman Acquisition that closed on May 2, 2008 and (2) JBS Packerland Acquisition that closed on October 23, 2008.



You should read the selected historical consolidated financial data set forth below in conjunction with, and the data is qualified by reference to, "Unaudited pro forma combined financial statements," "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus (other than our predecessor's unaudited historical consolidated financial statements as of and for the fiscal years ended May 30, 2004, May 29, 2005 and May 28, 2006, which are not included elsewhere in this prospectus).

in thousands	<b>Predecessor</b>		
	<b>Fiscal year ended</b>		
	<b>May 30, 2004</b>	<b>May 29, 2005</b>	<b>May 28, 2006</b>
	Unaudited	Unaudited	Unaudited
<b>Statement of operations data:</b>			
Net sales .....	9,427,235	9,664,249	9,348,151
Cost of goods sold .....	9,165,466	9,452,638	9,267,142
Gross profit.....	261,769	211,611	81,009
Selling, general and administrative .....	134,016	146,830	166,172
Goodwill impairment.....	□	11,869	4,488
Foreign currency transaction loss (gain).....	824	(396)	19
Other income, net.....	(9,776)	(5,884)	(3,357)
Loss on sales of property, plant and equipment .....	851	1,031	662
Interest expense, net.....	91,802	100,237	112,264
Total expenses .....	217,717	253,687	280,248
Income (loss) from continuing operations before income taxes .....	44,052	(42,076)	(199,239)
Income tax expense (benefit).....	14,965	(31,645)	(57,736)
Equity method investment earnings (losses) .....	(6,592)	4,247	□
Income from discontinued operations .....	3,672	27,852	□
Net income (loss) .....	26,167	21,668	(141,503)
<b>Balance sheet data (at period end):</b>			
Cash and cash equivalents .....	136,195	79,712	52,291
Accounts receivable, net.....	329,944	373,167	366,744
Inventories.....	480,679	499,039	503,426
Property, plant and equipment, net.....	602,416	562,454	504,271
Total assets .....	1,784,833	1,709,481	1,604,928
Long-term debt.....	787,428	946,496	1,102,717
Total debt .....	791,667	997,978	1,104,519
Stockholder's equity (deficit) .....	411,659	124,137	(20,029)

in thousands, except earnings per share	Predecessor		Successor			
	Fiscal year ended December 24, 2006	198 days from December 25, 2006 through July 10, 2007	173 days from July 11, 2007 through December 30, 2007	Fiscal year ended December 28, 2008	Fiscal quarter ended March 30, 2008	Fiscal quarter ended March 29, 2009
	Audited	Audited	Audited	Audited	Unaudited	Unaudited
<b>Statement of operations data:</b>						
Net sales .....	□9,691,432	□4,970,624	□4,988,984	□12,362,281	□2,461,657	□3,196,339
Cost of goods sold .....	9,574,715	4,920,594	5,013,084	11,917,777	2,451,413	3,123,358
Gross profit (loss) .....	116,717	50,030	(24,100)	444,504	10,244	72,981
Selling, general and administrative expenses(1) .....	158,783	92,333	60,727	148,785	31,042	61,598
Foreign currency transaction loss (gain)(2) ....	(463)	(527)	(5,201)	75,995	(12,614)	(5,075)
Other income, net .....	(4,937)	(3,821)	(3,581)	(10,107)	(3,782)	(1,475)
Loss (gain) on sales of property, plant and equipment .....	(666)	(2,946)	182	1,082	19	180
Interest expense, net .....	118,754	66,383	34,340	36,358	8,108	14,592
Total expenses .....	271,471	151,422	86,467	252,113	22,773	69,820
Income (loss) before income tax expense .....	(154,754)	(101,392)	(110,567)	192,391	(12,529)	3,161
Income tax expense (benefit) .....	(37,348)	(18,380)	1,025	31,287	5,613	909
Net income (loss) .....	□(117,406)	□(83,012)	□(111,592)	□161,104	□(18,142)	□2,252
Basic and diluted net income (loss) per share of common stock(3) .....	N/A	N/A	□(1,115,920.00)	□1,611,040.00	□(181,420.00)	□22,520.00
Basic and diluted pro forma net income (loss) per share of common stock(4) .....	N/A	N/A	□	□	□	□
<b>Balance sheet data (at period end):</b>						
Cash and cash equivalents .....	□83,420	□44,673	□198,883	□254,785	□77,365	□156,737
Accounts receivable, net .....	334,341	365,642	417,375	588,985	438,515	514,160
Inventories .....	457,829	487,598	466,756	649,000	541,519	650,026
Property, plant and equipment, net .....	487,427	505,172	708,056	1,229,316	716,334	1,241,055
Total assets .....	1,538,597	1,578,350	2,165,815	3,315,571	2,125,696	3,308,815
Long-term debt .....	1,065,553	1,201,975	32,433	806,808	32,347	901,517
Total debt .....	1,067,503	1,203,912	810,718	878,319	395,154	977,048
Stockholder's equity (deficit) .....	(40,090)	(98,818)	838,818	1,388,250	1,281,075	1,394,939

- (1) On February 18, 2009, we reached an agreement to terminate our efforts to acquire National Beef Packing Company, LLC, or National Beef, effective February 23, 2009. As a result of the termination of the agreement, we paid a breakage fee to the shareholders of National Beef totaling □19.9 million as full and final settlement of any and all liabilities relating to the potential acquisition, and we recorded as an expense the related incurred legal costs totaling an additional □1.0 million in the fiscal quarter ended March 29, 2009. These costs were reflected in selling, general and administrative expense.
- (2) Foreign currency transaction loss (gain) reflects changes in the value of our U.S. dollar-denominated intercompany note payable and receivable within Australia due to changes in the exchange rate between the U.S. dollar and the Australian dollar.
- (3) The capital structure of our predecessor company was significantly different from our capital structure. Prior to this offering, our capital structure consists of 100 common shares issued and outstanding, and we do not have any warrants or options that may be exercised. Accordingly, we do not believe our predecessor company's earnings per share information is meaningful to investors and have not included such information.
- (4) In calculating shares of our common stock outstanding, we give retroactive effect to the stock split to occur immediately prior to completion of this offering.

## Unaudited pro forma combined financial statements

On October 23, 2008, we acquired Smithfield Beef Group, Inc. (now known as JBS Packerland) for \$563.2 million in cash (including \$26.1 million of transaction related costs). This acquisition included 100% of Five Rivers, which had been previously held by Smithfield Beef Group, Inc. in a 50:50 joint venture with Continental Grain Company.

On April 27, 2009, our wholly owned subsidiaries, JBS USA, LLC and JBS USA Finance, Inc., issued 11.625% senior unsecured notes due 2014 in an aggregate principal amount of \$700 million and applied the net proceeds to repay \$100.0 million of borrowings under our secured revolving credit facility and to repay \$550.8 million of the outstanding principal and accrued interest on intercompany loans to us from a subsidiary of JBS S.A.

The following unaudited pro forma combined statement of operations for the fiscal year ended December 28, 2008 has been prepared as if

- the issuance and sale of \$560.9 million of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom,
- the JBS Packerland Acquisition, and
- the acquisition of 50% of the equity interest in Five Rivers not previously owned had occurred at the beginning of the period presented.

The unaudited pro forma combined statement of operations for the fiscal year ended December 28, 2008 is derived from

- our audited historical consolidated financial statements for the fiscal year ended December 28, 2008,
- unaudited historical financial information of Smithfield Beef Group, Inc. for the period from January 1, 2008 through October 22, 2008, and
- unaudited historical financial information of Five Rivers for the period from January 1, 2008 through October 22, 2008.

The following unaudited pro forma combined statement of operations for the fiscal quarter ended March 29, 2009 has been prepared as if the issuance and sale of \$560.9 million of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom had occurred as of December 30, 2007, and the unaudited pro forma combined balance sheet as of March 29, 2009 has been prepared as if the sale of all of the 11.625% senior unsecured notes due 2014 had occurred on March 29, 2009. The unaudited pro forma combined financial statements as of and for the fiscal quarter ended March 29, 2009 are derived from our unaudited historical consolidated financial statements for the fiscal quarter ended March 29, 2009.

Historically, Smithfield Beef Group, Inc. and Five Rivers reported their financial results using the last Sunday in April, and March 31, respectively, as their fiscal year ends. Accordingly, the historical amounts presented for JBS Packerland and Five Rivers in the unaudited pro forma combined financial information do not agree with Smithfield Beef Group, Inc.'s and Five Rivers' financial statements appearing elsewhere in this prospectus.

The unaudited pro forma combined financial statements set forth herein reflect certain adjustments for:

- the 50% equity ownership in Five Rivers owned by Smithfield Beef Group, Inc. prior to October 22, 2008 to avoid double counting such equity ownership since the historical financial statements of JBS USA Holdings, Inc. reflect such ownership under the equity method of accounting, but, on a pro forma basis, we have reflected the ownership of Five Rivers on a fully consolidated basis,
- expenses incurred by Smithfield Foods, Inc. in anticipation of the sale of the Smithfield Beef Group, Inc. to JBS USA, LLC,
- revenue and expenses associated with Five Rivers company owned cattle during the period January 1 through October 22, 2008, since subsequent to that date, Five Rivers does not own cattle but operates solely as a hotelling operation for other entities' cattle,
- revenue and expenses of cattle owned by Smithfield Beef Group, Inc. during the period January 1 through October 22, 2008, since subsequent to that date, JBS Packerland does not own cattle, and
- other assets and insignificant businesses not acquired and liabilities not assumed.

The unaudited pro forma combined financial statements reflect pro forma adjustments that are described above and in the accompanying notes and are based on available information and certain assumptions that we believe are reasonable under the circumstances, and the actual results could differ materially from these anticipated results. In our opinion, all adjustments that are necessary to present fairly the unaudited pro forma consolidated data have been made. The unaudited pro forma combined financial statements are presented for informational purposes only and do not purport to be indicative of what would have occurred had the JBS Packerland Acquisition actually been consummated at the beginning of the period presented, nor are they necessarily indicative of our future consolidated operating results.

You should read the following unaudited pro forma combined financial statements in conjunction with, and the data is qualified by reference to, "Management's discussion and analysis of financial condition and results of operations" and the financial statements and accompanying notes included elsewhere in this prospectus.

# Unaudited pro forma combined statement of operations for the fiscal year ended December 28, 2008

	JBS USA Holdings, Inc.	JBS Packerland	JBS Packerland	JBS Packerland	Five Rivers	Five Rivers		JBS USA Holdings, Inc.	
	Fiscal year ended December 28, 2008	December 31, 2007 through October 22, 2008 (a)(i)	Adjustment for 50% equity interest in Five Rivers (b)	Adjustment for assets not acquired (c)(i)	December 31, 2007 through October 22, 2008 (a)(ii)	Adjustment for assets not acquired (c)(ii)	Adjustment for transaction	Fiscal year ended December 28, 2008	
in thousands, except earnings per share	Historical	Historical			Historical		Notes	Pro forma	
	(+)	(+)	(-)	(-)	(+)	(-)	(+)		
Net sales .....	12,362,281	2,548,224	□	4,923	1,461,140	912,920	(8,011)	(d)	15,445,791
Cost of goods sold .....	11,917,777	2,397,551	□	4,949	1,511,462	988,814	4,724	(d),(e)	14,837,751
Gross profit (loss) .....	444,504	150,673	□	(26)	(50,322)	(75,894)	(12,735)		608,040
Selling, general and administrative expenses .....	148,785	78,793	□	24,017	11,093	9	4,052	(e)	218,697
Foreign currency transaction losses .....	75,995	□	□	□	□	□	□		75,995
Other (income) expense .....	(10,107)	44,465	39,139	5,555	(208)	(74)	□		(10,470)
Loss on sales of property, plant and equipment .....	1,082	107	□	□	131	224	□		1,096
Interest expense, net .....	36,358	30,837	□	31,005	16,940	16,940	46,431	(f)	82,621
Total expenses, net .....	252,113	154,202	39,139	60,577	27,956	17,099	50,483		367,939
Income (loss) from continuing operations before .....	192,391	(3,529)	(39,139)	(60,603)	(78,278)	(92,993)	(63,218)		240,101
Income tax expense .....	31,287	2,222	□	2,222	□	□	16,699	(g)	47,986
Net income (loss) .....	161,104	(5,751)	(39,139)	(62,825)	(78,278)	(92,993)	(79,917)		192,115
Basic and diluted net income (loss) per share of common stock .....	1,611,040.00								1,921,150.00

(a) Represents the historical results of

- (i) JBS Packerland, and
- (ii) Five Rivers

for the period from December 31, 2007 through October 22, 2008.

(b) Represents the elimination of the 50% equity interest in Five Rivers from the historical results of JBS Packerland for the period December 31, 2007 through October 22, 2008. On a pro forma basis, the results of Five Rivers are reflected on a fully consolidated basis as part of the JBS Packerland Acquisition.

(c) Reflects the elimination of assets not acquired for

- (i) JBS Packerland and
- (ii) Five Rivers.

The adjustment for assets not acquired includes (1) revenue and expenses associated with cattle owned by Smithfield Beef Group, Inc. that were retained by Smithfield Foods, Inc., (2) revenue and expenses associated with cattle owned by Five Rivers that were retained by Smithfield Foods, Inc., (3) the elimination of corporate overhead charge by Smithfield Foods, Inc. and (4) other assets and insignificant businesses not acquired and liabilities not assumed.

(d) Reflects the elimination of 8.0 million of intercompany sales and 8.0 million of cost of goods sold between JBS Packerland and the legacy Swift Beef segment for the period from December 31, 2007 through October 22, 2008.

- (e) Represents the adjustment of \$12.7 million to historical cost of goods sold and to selling, general and administrative expenses of \$4.1 million to reflect depreciation and amortization expense based on the estimated fair values and useful lives of identified tangible and intangible assets for JBS Packerland and Five Rivers based on a preliminary third-party valuation report. The purchase price allocation is preliminary pending completion of independent valuations of identified tangible and intangible assets acquired and certain liabilities acquired, including, but not limited to deferred taxes. The allocation of the purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands), and the following table details the purchase price components:

Purchase price allocation:	
Purchase price paid to previous shareholders .....	\$537,068
Fees and direct expenses .....	26,134
<b>Total purchase price .....</b>	<b>\$563,202</b>
Preliminary purchase price allocation:	
Current assets and liabilities .....	\$ 43,052
Property, plant and equipment(i) .....	423,955
Deferred tax liabilities .....	(142,997)
Goodwill .....	95,998
Intangible assets(ii) .....	138,023
Other noncurrent assets and liabilities, net .....	5,171
<b>Total purchase price allocation .....</b>	<b>\$563,202</b>

- (i) Property, plant and equipment was recorded at fair value at the date of the JBS Packerland Acquisition. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment .....	5 to 15 years
Buildings and improvements .....	15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

- (ii) Intangible assets include customer relationships and customer contracts resulting from the JBS Packerland Acquisition that are being amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability.

- (f) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	\$ 467
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	7,802
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	65,209
Interest expense, intercompany debt(iv) .....	(27,047)
<b>Total Interest expense, net(v) .....</b>	<b>\$46,431</b>

- (i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008, calculated on a straight-line basis.

- (ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008, calculated on a straight-line basis.

- (iii) Includes pro forma interest expense on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008.

- (iv) Includes the reduction of pro forma interest expense for the period from December 31, 2007 through December 28, 2008 on our consolidated intercompany loans from JBS S.A. due to a \$519.6 million reduction in the aggregate principal amount of those intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.

- (v) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (iv) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

- (g) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

# Unaudited pro forma combined statement of operations for the fiscal quarter ended March 29, 2009

in thousands, except earnings per share	JBS USA Holdings, Inc.			JBS USA Holdings, Inc.	
	March 29, 2009	Adjustments		March 29, 2009	
	Historical	(+)		Notes	
					Pro forma
Net sales .....	3,196,339				3,196,339
Cost of goods sold .....	3,123,358				3,123,358
Gross profit.....	72,981				72,981
Selling, general and administrative expenses.....	61,598				61,598
Foreign currency transaction gains.....	(5,075)				(5,075)
Other income, net.....	(1,475)				(1,475)
Loss on sales of property, plant and equipment .....	180				180
Interest expense, net.....	14,592	10,024		(a)	24,616
Total expenses.....	69,820	10,024			79,844
Income (loss) from continuing operations before income tax .....	3,161	(10,024)			(6,863)
Income tax expense (benefit).....	909	(3,509)		(b)	(2,600)
Net income (loss) .....	2,252	(6,515)			(4,263)
Basic and diluted net income (loss) per share of common stock.....	22,250.00				(42,630.00)

(a) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	117
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	1,950
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	16,302
Interest expense, intercompany debt(iv) .....	(8,345)
Total interest expense, net(v) .....	10,024

- (i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 29, 2008 through March 29, 2009, calculated on a straight-line basis.
- (ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period December 29, 2008 through March 29, 2009, calculated on a straight-line basis.
- (iii) Includes pro forma interest expense for the period December 29, 2008 through March 29, 2009 on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014.
- (iv) Includes the reduction of pro forma interest expense on our intercompany loans from JBS S.A. due to the \$519.6 million reduction in the aggregate principal amount of those intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.
- (v) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (iv) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

(b) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

# Unaudited pro forma combined balance sheet as of March 29, 2009

in thousands	JBS USA Holdings, Inc.			
	Historical	Adjustments	Notes	Pro forma
<b>Assets</b>				
Current assets:				
Cash and cash equivalents .....	□ 156,737	□ (2,415)	(a)	□ 154,322
Trade accounts receivable, net of allowance for doubtful accounts of □4,142 .....	514,160	□		514,160
Inventories .....	650,026	□		650,026
Other current assets .....	77,555	□		77,555
<b>Total current assets</b> .....	<b>1,398,478</b>	<b>(2,415)</b>		<b>1,396,063</b>
Property, plant, and equipment, net .....	1,241,055	□		1,241,055
Goodwill .....	149,093	□		149,093
Other intangibles, net .....	299,097	□		299,097
Other assets .....	221,092	2,915	(b)	224,007
<b>Total assets</b> .....	<b>□ 3,308,815</b>	<b>□ 500</b>		<b>□3,309,315</b>
<b>Liabilities and stockholder's equity</b>				
Current liabilities:				
Short-term debt .....	□ 71,428	□		□ 71,428
Current portion of long-term debt .....	4,103	□		4,103
Accounts payable, including book overdrafts .....	273,547	□		273,547
Accrued liabilities .....	303,691	(31,225)	(c)	272,466
<b>Total current liabilities</b> .....	<b>652,769</b>	<b>(31,225)</b>		<b>621,544</b>
Long-term debt, less current portion .....	901,517	31,725	(d)	933,242
Other non-current liabilities .....	359,590	□		359,590
<b>Total liabilities</b> .....	<b>1,913,876</b>	<b>500</b>		<b>1,914,376</b>
Stockholder's equity:				
Common stock, 500,000,000 shares authorized, 100 issued and outstanding .....	□	□		□
Additional paid-in capital .....	1,400,159	□		1,400,159
Retained earnings .....	51,764	□		51,764
Accumulated other comprehensive (loss) .....	(56,984)	□		(56,984)
<b>Total stockholder's equity</b> .....	<b>1,394,939</b>	<b>□</b>		<b>1,394,939</b>
<b>Total liabilities and stockholder's equity</b> .....	<b>□ 3,308,815</b>	<b>□ 500</b>		<b>□3,309,315</b>

- (a) Reflects the pro forma use of cash which was used to pay a portion of the debt issuance costs which were not paid from the proceeds of the issuance of our 11.625% senior unsecured notes due 2014.
- (b) Reflects debt issuance costs of \$2.9 million related to the issuance of our 11.625% senior unsecured notes due 2014. These debt issuance costs will be capitalized and amortized on a straight-line basis over a period of five years.
- (c) Reflects the reduction of accrued interest on our intercompany loans, a portion of which were repaid using the net proceeds of our 11.625% senior unsecured notes due 2014.
- (d) Reflects the principal amount of our 11.625% senior unsecured notes due 2014 reduced by (1) original issue discount on our 11.625% senior unsecured notes due 2014 of \$48.7 million, (2) a \$100.0 million reduction in outstanding borrowings under our senior secured revolving credit facility using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014, and (3) a \$519.6 million reduction in the aggregate principal amount of our intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.



# Management's discussion and analysis of financial condition and results of operations

## Overview

### JBS USA Holdings, Inc.

We are a global leader in beef and pork processing with approximately \$15.4 billion in net sales for the fiscal year ended December 28, 2008 on a pro forma basis. In terms of daily slaughtering capacity, we are among the leading beef and pork processors in the United States and we have been the number one processor of beef in Australia for the past 15 years. As a standalone company, we would be the largest beef processor in the world. We also own and operate the largest feedlot business in the United States.

We process, prepare, package and deliver fresh, processed and value-added beef and pork products for sale to customers in over 60 countries on six continents. Our operations consist of supplying fresh meat products, processed meat products and value-added meat products. Fresh meat products include refrigerated beef and pork processed to standard industry specifications and sold primarily in boxed form. Our processed meat offerings, which include beef and pork products, are cut, ground and packaged in a customized manner for specific orders. Additionally, we process lamb and mutton products. Our value-added products include moisture-enhanced, seasoned, marinated and consumer-ready products. We also provide services to our customers designed to help them develop more comprehensive and profitable sales programs. Our customers are in the food service, international, further processor and retail distribution channels. We also produce and sell by-products that are derived from our meat processing operations, such as hides and variety meats, to customers in the clothing, pet food and automotive industries, among others.

Our business operations are organized into two segments:

- our Beef segment, through which we conduct our domestic beef processing business, including the beef operations we acquired in the JBS Packerland Acquisition, and our international beef, lamb and sheep processing businesses that we acquired in the Tasman Acquisition; and
- our Pork segment, through which we conduct our domestic pork and lamb processing business.

We also present □Corporate and other□ in our financial statements, which include certain revenues and expenses not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

We are a wholly owned indirect subsidiary of JBS S.A., the world's largest beef producer, which has a daily slaughtering capacity of 73,940 head of cattle. In the fiscal quarter ended March 29, 2009, we represented approximately 78% of JBS S.A.'s gross revenues. Over the past few years, JBS S.A. has acquired several U.S. and Australian beef and pork processing companies and slaughterhouses, which now comprise JBS USA Holdings, Inc. and its subsidiaries:

- on July 11, 2007, JBS S.A. acquired Swift Foods Company (our predecessor company, which was subsequently renamed JBS USA Holdings, Inc.), which we refer to as the Swift Acquisition;
- on May 2, 2008, we acquired substantially all of the assets of the Tasman Group Services, Pty. Ltd., or the Tasman Group, which we refer to as the Tasman Acquisition; and
- on October 23, 2008, we acquired Smithfield Beef Group, Inc. (which we subsequently renamed JBS Packerland), which included the 100% acquisition of Five Rivers. We refer to this transaction as the JBS Packerland Acquisition.

### Critical accounting policies and estimates

The preparation of consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates we consider critical. See Note 5, "Basis of presentation and accounting policies," to our audited combined financial statements included elsewhere in this prospectus for a detailed discussion of these and other accounting policies.

### ***Contingent liabilities***

From time to time we are subject to lawsuits, investigations and other claims related to wage and hour labor, livestock procurement, securities, environmental, product, taxes and other matters, and are 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 and disclosures required, if any, for these contingencies is made after considerable analysis of each individual issue. We accrue for contingent liabilities when an assessment of the risk of loss is probable and can be reasonably estimated. We disclose contingent liabilities when the risk of loss is reasonably possible or probable. Due to the unpredictable nature of these lawsuits, investigations, and claims, our contingent liabilities reflect uncertainties. The eventual outcome will result from future events, and determination of current reserves requires estimates and judgments related to future changes in facts and circumstances, differing interpretations of the law and assessments of the amount of damages, and the effectiveness of strategies or other factors beyond our control. We have not made any material changes in the accounting methodology used to establish our contingent liabilities during the past three fiscal years. We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our contingent liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.

### ***Marketing and advertising costs***

We incur advertising, retailer incentive and consumer incentive costs to promote products through marketing programs. These programs include cooperative advertising, volume discounts, in-store display incentives, coupons and other programs. Marketing and advertising costs are charged in the period incurred. We accrue costs based on the estimated performance, historical utilization and redemption of each program. Cash consideration given to customers is considered a reduction in the price of our products, and thus is recorded as a reduction to sales. The remainder of marketing and advertising costs is recorded as a selling, general and administrative expense. Recognition of the costs related to these programs contains uncertainties due to the judgment required to estimate the potential performance and redemption of each program. These estimates are based on many factors, including experience of similar promotional programs. We have not made any material changes in the accounting methodology used to establish our marketing accruals during the past three fiscal years. We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our marketing accruals. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.

### ***Accrued self-insurance***

We are self-insured for employee medical and dental benefits and purchase insurance policies with deductibles for certain losses related to worker's compensation and general liability claims. We purchase stop-loss coverage in order to limit our exposure to any significant level of certain claims. Self-insured losses are accrued based upon periodic assessments of estimated settlements for known and anticipated claims. We have not made any material changes in the accounting methodology used to establish our self-insurance liability during the past three fiscal years. We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our self-insurance liability. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material. A 10¢ increase in our estimated self-insurance liability at March 29, 2009 would increase the amount we recorded for our self-insurance liability by approximately \$15.4 million.

### ***Impairment of long-lived assets***

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Examples include a significant adverse change in the extent or manner in which we use a long-lived asset or a change in its physical condition. When evaluating long-lived assets for impairment, we compare the carrying value of the asset to the asset's estimated undiscounted future cash flows. An impairment is indicated if the estimated future cash flows are less than the carrying value of the asset. The impairment is the excess of the carrying value over the fair value of the long-lived asset. Our impairment analysis contains uncertainties due to judgment in assumptions and estimates surrounding undiscounted future cash flows of the long-lived asset, including forecasting useful lives of assets and selecting the discount rate that reflects the risk inherent in future cash flows to determine fair value. We have not made any material changes in the accounting methodology used to evaluate the impairment of long-lived assets during the last three fiscal years. We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate impairments of long-lived assets. However, if actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to impairment losses that could be material.

### ***Impairment of goodwill and other non-amortizing intangible assets***

Goodwill impairment is determined using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of an operating unit, which for us is a reportable segment, with its carrying amount, including goodwill. If the fair value of a segment exceeds its carrying amount, goodwill of the segment is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a segment exceeds its fair value, a second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the segment is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the segment had been acquired in a business combination and the fair value of the segment was the purchase price paid to acquire the segment).

For our other non-amortizing intangible assets, if the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We have elected to make the last day of the fourth quarter the annual impairment assessment date for goodwill and other intangible assets. However, we could be required to evaluate the recoverability of goodwill and other intangible assets prior to the required annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, cash flows, or upon divestiture of a significant component of the business.

We estimate the fair value of our segments using various valuation techniques, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various judgmental assumptions about sales, operating margins, growth rates and discount rates. Assumptions about sales, operating margins and growth rates are based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period.

While estimating the fair value of our Beef and Pork segments, we assumed operating margins in future years in excess of the margins realized in the most current year. The fair value estimates for these segments assume normalized operating margin assumptions and improved operating efficiencies based on long-term expectations and margins historically realized in the beef and chicken industries.

Other intangible asset fair values have been calculated for trademarks using a royalty rate method and using the present value of future cash flows for patents and in-process technology. Assumptions about royalty rates are based on the rates at which similar brands and trademarks are licensed in the marketplace. Our impairment analysis contains uncertainties due to uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions.

We have not made any material changes in the accounting methodology used to evaluate impairment of goodwill and other intangible assets during the last three years. As a result of the first step of the 2008 goodwill impairment analysis, the fair value of each segment exceeded its carrying value. The second step could have resulted in an impairment loss for goodwill.

While we believe we have made reasonable estimates and assumptions to calculate the fair value of the segments and other intangible assets, it is possible a material change could occur. If our actual results are not consistent with our estimates and assumptions used to calculate fair value, we may be required to perform the second step which could result in a material impairment of our goodwill.

## **Income taxes**

We estimate total income tax expense based on statutory tax rates and tax planning opportunities available to us in various jurisdictions in which we earn income. Federal income taxes include an estimate for taxes on earnings of foreign subsidiaries expected to be remitted to the United States and be taxable, but not for earnings considered indefinitely invested in the foreign subsidiary. Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are recorded when it is likely a tax benefit will not be realized for a deferred tax asset. We record unrecognized tax benefit liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. This analysis is performed in accordance with the requirements of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," or FIN 48, which we adopted on May 28, 2007. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. Changes in projected future earnings could affect the recorded valuation allowances in the future. Our calculations related to income taxes contain uncertainties due to judgment used to calculate tax liabilities in the application of complex tax regulations across the tax jurisdictions where we operate. Our analysis of unrecognized tax benefits contain uncertainties based on judgment used to apply the more likely than not recognition and measurement thresholds of FIN 48. We do not believe there is a reasonable likelihood there will be a material change in the tax related balances or valuation allowances. However, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. To the extent we prevail in matters for which FIN 48 liabilities have been established, or are required to pay amounts in excess of our recorded FIN 48 liabilities, our effective tax rate in a given financial statement period could be materially affected. Any change to our valuation allowance will impact our effective tax rate in a given financial statement period and could materially impact our tax expense. An unfavorable tax settlement would require use of our cash and result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the period of resolution.

## **Recent accounting pronouncements**

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which defers the effective date of SFAS No. 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis, at least annually. We will be required to adopt for these nonfinancial assets and nonfinancial liabilities as of December 29, 2008. We believe the adoption of SFAS No. 157 deferral provisions will not have a material impact on our financial position results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," or SFAS No. 167. SFAS No. 167 provides for enhanced financial reporting by enterprises involved with variable interest entities and is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact, if any, of SFAS No. 167 on our financial position, results of operations and cash flows.

## **Factors affecting our results of operations**

Our results of operations have been influenced and will continue to be influenced by a variety of factors. Our management monitors a number of metrics and indicators that affect our operations, including the following:

- production volume,
- plant capacity utilization,
- sales volume,
- selling prices of beef and pork products,
- customer demands and preferences (see "Risk factors" Risks relating to our business and the beef and pork industries" Changes in consumer preferences could adversely affect our business.),
- commodity futures board prices for livestock (see "Risk factors" Risks relating to our business and the beef and pork industries" Our results of operations may be negatively impacted by fluctuations in the prevailing market prices for livestock"and Note 6, "Derivative financial instruments," to our unaudited consolidated financial statements included in this prospectus),
- spread between livestock prices and selling prices for finished goods,
- utility prices and trends,
- livestock availability,
- production yield,

- currency exchange rate fluctuations (in particular, between the U.S. dollar and the Australian dollar) (see "Risk factors" Risks relating to our business and the beef and pork industries" Our export and international operations expose us to political and economic risks in foreign countries, as well as to risks related to currency fluctuations"), and
- trade barriers, exchange controls and political risk and other risks associated with export and foreign operations. See "Risk factors" Risks relating to our business and the beef and pork industries" Our export and international operations expose us to political and economic risks in foreign countries, as well as to risks related to currency fluctuations."

Our operating results are also influenced by seasonal factors, which impact the price that we pay for livestock as well as the ultimate price at which we sell our products.

In the beef industry, the seasonal demand for beef products is highest in the summer and fall months as weather patterns permit more outdoor activities and there is typically an increased demand for higher value items that are grilled, such as steaks. Both live cattle prices and boxed beef prices tend to be at seasonal highs during the summer and fall. Because of higher consumption, more favorable growing conditions and the housing of animals in feedlots for the winter months, there are generally more cattle available in the summer and fall. In Australia, seasonal demand does not fluctuate as significantly as it does in the United States.

The pork industry has similar seasonal cycles but in different months. It takes an average of 11 months from conception for a hog to reach market weight. Generally, sows are less productive in summer months, resulting in fewer hogs available in the spring and early summer, which causes prices of hogs and boxed pork to rise, but production to fall. The highest demand for pork occurs from October to March, as hog availability and holiday occasions increase the demand for hams, tenderloins and other higher value pork products. During the quarter ended March 29, 2009, seasonal demand followed normal historical patterns.

We believe that our results of operations are not materially affected by moderate changes in the inflation rate. Inflation and changing prices did not have a material effect on our operations in fiscal years 2008, 2007 and 2006. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse effect on our business, financial condition and results of operations.

Other factors that impact the results of our operations include outbreaks of livestock disease, product contamination or recalls, our ability to implement our business plan (including our ability to arrange financing when required and on reasonable terms), and the implementation of our financing strategy and capital expenditure plan.

## RESULTS OF OPERATIONS

Our current fiscal year is based on the 52- or 53-week period ending on the last Sunday in December. Our predecessor company's fiscal year was based on the 52- or 53-week period ending on the last Sunday in May. We present financial statements for the following periods:

- the fiscal year ended December 24, 2006,
- the 198 days from December 25, 2006 through July 10, 2007,
- the 173 days from July 11, 2007 (the date of the Swift Acquisition) through December 30, 2007,
- the fiscal year ended December 28, 2008, and
- the fiscal quarters ended March 30, 2008 and March 29, 2009.

The Swift Acquisition closed on July 11, 2007, and the financial statements for the 198 days from December 25, 2006 to July 10, 2007 represent the period between the end of the last day of the fiscal year ended December 24, 2006 and the day prior to the closing of the Swift Acquisition. The periods ended prior to July 11, 2007 are referred to as the "predecessor" periods. The financial statements for the 173-day period from July 11, 2007 through December 30, 2007 represent the period from the date of the Swift Acquisition through December 30, 2007. The periods ended subsequent to July 10, 2007 are referred to as the "successor" periods.

On May 26, 2006, we completed the sale of our non-fed cattle business, including our operating plant assets in Omaha, Nebraska and our idled Nampa, Idaho assets. Due to our significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants have been reflected in our continuing operations through the fiscal year ended December 24, 2006.

Our consolidated results of operations for the 198-day period ended July 10, 2007 and the 173-day period ended December 30, 2007 are not fully comparable to our results for the fiscal year ended December 24, 2006 due to the change in cost basis and recapitalization that occurred on July 11, 2007.

Our consolidated results of operations for the fiscal year ended December 28, 2008 are not fully comparable to our results of operations for the combined 198-day period ended July 10, 2007 and the 173-day period ended December 30, 2007 due to the (1) change in cost basis and recapitalization that occurred on July 11, 2007, (2) Tasman Acquisition that closed on May 2, 2008 and (3) JBS Packerland Acquisition that closed on October 23, 2008.

Our consolidated results of operations for the fiscal quarter ended March 29, 2009 are not fully comparable to our results of operations for the fiscal quarter ended March 30, 2008 due to the (1) Tasman Acquisition that closed on May 2, 2008 and (2) JBS Packerland Acquisition that closed on October 23, 2008.

Prior to the Tasman Acquisition, we had significant operations in northern Australia through our legacy Australian subsidiaries. As a result, even prior to the Tasman Acquisition, the value of the Australian dollar as compared to the U.S. dollar had an effect on our Australian operations.

### Supplemental financial data

The following table presents segment results for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007, the 173 days ended December 30, 2007, the fiscal year ended December 28, 2008, and the fiscal quarters ended March 30, 2008 and March 29, 2009.

in thousands	Predecessor		Successor			
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007	Fiscal year ended December 28, 2008	Fiscal quarter ended March 30, 2008	Fiscal quarter ended March 29, 2009
	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Net sales:						
Beef.....	□ 7,576,136	□ 3,757,295	□ 3,942,231	□ 9,975,510	□ 1,935,142	□ 2,680,205
Pork.....	2,152,583	1,234,133	1,063,644	2,438,049	535,509	526,283
Corporate and other.....	(37,287)	(20,804)	(16,891)	(51,278)	(8,994)	(10,149)
<b>Total.....</b>	<b>\$ 9,691,432</b>	<b>\$ 4,970,624</b>	<b>\$ 4,988,984</b>	<b>\$ 12,362,281</b>	<b>\$ 2,461,657</b>	<b>\$ 3,196,339</b>
Depreciation, amortization expense and goodwill impairment(1):						
Beef.....	□ 65,443	□ 32,913	□ 25,627	□ 68,721	□ 14,114	□ 26,568
Pork.....	23,679	11,925	9,617	23,653	5,025	6,784
<b>Total.....</b>	<b>\$ 89,122</b>	<b>\$ 44,838</b>	<b>\$ 35,244</b>	<b>\$ 92,374</b>	<b>\$ 19,139</b>	<b>\$ 33,352</b>

(1) The fiscal year ended December 24, 2006 included a □4.5 million goodwill impairment charge.

## Fiscal quarter ended March 29, 2009 compared to fiscal quarter ended March 30, 2008

*Net sales.* Net sales is defined as gross sales (amounts invoiced to customers) less any sales returns and allowances. We grant allowances that are customary in our business. Net sales for the fiscal quarter ended March 29, 2009 totaled \$3,196.3 million as compared to net sales of \$2,461.7 million for the fiscal quarter ended March 30, 2008. Net sales for the fiscal quarter ended March 29, 2009 increased \$734.7 million, or 29.8%, as compared to the fiscal quarter ended March 30, 2008, primarily reflecting an overall 10% increase in sales volume, which was partially offset by a 6.1% overall decrease in sales prices. Excluding the JBS Packerland and Tasman Acquisitions, net sales would have been \$2,307.1 million for the fiscal quarter ended March 29, 2009, representing a decrease of \$154.5 million. This sales price decrease reflected a 7.3% decrease in Beef segment prices, partially offset by a 4.6% increase in Pork segment prices. Volumes increased in our Beef segment by 49.4% driven by the JBS Packerland and Tasman Acquisitions (a 1.6% decrease excluding the JBS Packerland and Tasman Acquisitions primarily due to market conditions, including demand), and a 6.1% decrease in our Pork segment related to overall market conditions, including demand and margins. The addition of smalls in Australia for the period ended March 29, 2009 was the primary driver of the decline in per unit selling prices. For calculation of the price changes in the period subsequent to the Tasman Acquisition, we utilized a 12 to 1 ratio of smalls to cattle equivalents based on relative weights. The value of the Australian dollar as compared to the U.S. dollar decreased 27.0% between the two periods which negatively affected net sales from our international operations included in our Beef segment.

*Cost of goods sold.* Cost of goods sold totaled \$3,123.4 million for the fiscal quarter ended March 29, 2009 as compared to \$2,451.4 million for the fiscal quarter ended March 30, 2008. Cost of goods sold increased \$671.9 million, or 27.4%, for the fiscal quarter ended March 29, 2009 as compared to the fiscal quarter ended March 30, 2008. Excluding the JBS Packerland and Tasman Acquisitions, cost of goods sold would have been \$2,268.7 million for fiscal quarter ended March 29, 2009, representing a decrease of \$182.7 million. Cost of goods sold increased 34.6% in our Beef segment as a result of a 49.4% increase in slaughter volumes (primarily attributable to the JBS Packerland and Tasman Acquisitions), offset by a 1.6% decrease in slaughter volumes at the legacy Swift beef facilities and an 11.7% decrease in cattle prices and further offset by a 0.2% decrease in cost of goods sold in our Pork segment (which was driven by a 6.1% decrease in hog slaughter volumes, partially offset by a 7.2% increase in hog prices). Although total cost of goods sold increased quarter over quarter due to increased Beef segment production volume, we demonstrated reductions in per head cost for the following categories: freight costs, hourly wages including overtime, utilities costs (driven by lower natural gas prices), repairs and maintenance costs and storage costs.

*Gross margin percentages.* Gross margin percentage (gross profit as a percent of net sales) was 2.3% for the fiscal quarter ended March 29, 2009 as compared to 0.4% for the fiscal quarter ended March 30, 2008. The increase in gross margin percentage reflects a 2.7 percentage point increase in our Beef segment, partially offset by a decrease of 1.6 percentage points in our Pork segment. Margin enhancements in our Beef segment reflect cost reductions due to renegotiation of supply contracts, elimination of certain third-party service providers (including cattle hotelling, lab services and maintenance service providers) and the insourcing of these items at lower cost, operational yield enhancements which generated additional pounds to sell from each carcass and improved margins due to enhanced product mix resulting from increased volume sold to international markets where products like the special cuts described above generate a higher return. Margin declines in our Pork segment were driven by a 7.2% increase in hog prices, which could not be fully passed on through higher selling prices, especially for rendered products used for fuel for which demand and prices decreased due to lower petroleum product prices between the corresponding periods. Excluding the JBS Packerland and Tasman Acquisitions, gross margin percentage would have been 1.7% for fiscal quarter ended March 29, 2009, representing an increase of 1.3% year over year.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$61.6 million for the fiscal quarter ended March 29, 2009 as compared to \$31.0 million for the fiscal quarter ended March 30, 2008. These expenses increased by \$30.6 million, or 98.4%. Excluding the JBS Packerland and Tasman Acquisitions, selling, general and administrative expenses increased \$19.4 million, or 62.4%, when compared to the same period in the prior year. During the fiscal quarter ended March 29, 2009, we reached an agreement to terminate our efforts to acquire National Beef Packing Company, LLC, or National Beef, and as a result, we paid a breakage fee to the shareholders of National Beef totaling \$19.9 million, and we recorded as an expense the related incurred legal costs totaling an additional \$1.0 million. These non-recurring costs of \$20.9 million were recorded in selling, general and administrative expenses in the Corporate and other segment. This increase was partially offset by the effect of the depreciation of 27.0% in the value of the Australian dollar as compared to the U.S. dollar between the comparative fiscal quarters.

*Foreign currency transaction, net.* Foreign currency transaction, net for the fiscal quarter ended March 29, 2009 was a gain of \$5.1 million as compared to a gain of \$12.6 million for the fiscal quarter ended March 30, 2008. This \$7.5 million change related to the effects of the variation in the value of the Australian dollar as compared to the U.S. dollar on our U.S. dollar-denominated intercompany note payable and receivable within Australia. The value of the Australian dollar as compared to the U.S. dollar depreciated 24.4% between the two period ends.

*Interest expense, net.* Interest expense, net for the fiscal quarter ended March 29, 2009 was \$14.6 million as compared to \$8.1 million for the fiscal quarter ended March 30, 2008. This increase of \$6.5 million related to additional borrowings under our intercompany loans and our revolving credit facility. As part of the Tasman Acquisition, we also assumed incremental debt. The additional borrowings were used to finance our working capital needs following the JBS Packerland and Tasman Acquisitions in 2008. In addition, the average interest rate applicable to these borrowings was slightly higher in the 2009 period as compared to the 2008 period. See Note 16, "Subsequent event," to our unaudited consolidated financial statements included elsewhere in this prospectus and "Liquidity and capital resources."

*Income tax expense, net.* Income tax expense, net for the fiscal quarter ended March 29, 2009 was \$0.9 million as compared to \$5.6 million for the fiscal quarter ended March 30, 2008. The expense for both periods relates mainly to our Australian operations as we had established a valuation allowance in the United States. Therefore, the \$4.7 million decrease related to a decrease in our international income.

*Net income (loss).* As a result of the factors discussed above, our net income for the fiscal quarter ended March 29, 2009 increased to income of \$2.3 million from a loss of \$18.1 million for the fiscal quarter ended March 30, 2008.

### **Beef segment**

*Net sales.* Net sales totaled \$2,680.2 million for the fiscal quarter ended March 29, 2009 as compared to \$1,935.1 million for the fiscal quarter ended March 30, 2008. Net sales increased by \$745.1 million, or 38.5%, as a result of an increase in production volume of 49.4%, which was partially offset by a 7.3% decrease in selling prices. For calculation of the price changes in the period subsequent to the Tasman Acquisition, we have used a 12 to 1 ratio of smalls to cattle equivalents based on relative weights. Increases in production related primarily to the JBS Packerland and Tasman Acquisitions, partially offset by a 1.6% decrease in volume from the legacy Swift beef facilities between the two quarters. Excluding the JBS Packerland and Tasman Acquisitions, net sales would have been \$1,791.0 million for the fiscal quarter ended March 29, 2009, representing a decrease of \$144.2 million, or 7.4%, primarily driven by the 27.0% depreciation of the Australian dollar compared to the U.S. dollar between the two quarters.

*Cost of goods sold.* Cost of goods sold totaled \$2,619.6 million in the fiscal quarter ended March 29, 2009 as compared to \$1,945.6 million in the fiscal quarter ended March 30, 2008. This increase of \$673.9 million, or 34.6%, resulted from a 49.4% increase in slaughter volumes (primarily attributable to the JBS Packerland and Tasman Acquisitions, offset by a 1.6% decrease in slaughter volumes at the legacy Swift beef facilities), further offset by an 11.7% decrease in cattle prices. Excluding the JBS Packerland and Tasman Acquisitions, cost of goods sold would have been \$1,764.9 million for fiscal quarter ended March 29, 2009, representing a decrease of \$180.7 million. The increase in cost of goods sold was also offset by the 27.0% percent decrease in the value of the Australian dollar as compared to the U.S. dollar. Notwithstanding the overall increase in cost of goods sold, on a cost per head basis, reductions occurred in hourly production overtime, maintenance costs, freight (driven by lower diesel fuel prices) and utilities (driven by lower natural gas prices).

*Gross margin percentages.* Gross margin percentage (gross profit as a percent of net sales) was 2.3% for the fiscal quarter ended March 29, 2009 as compared to (0.5)% for the fiscal quarter ended March 30, 2008. Excluding the JBS Packerland and Tasman Acquisitions, gross margin percentage would have been 1.5% for the fiscal quarter ended March 29, 2009, representing a 2.0 percentage point increase. The margin improvement in our Beef segment was driven by improvements in the product mix resulting from identification of higher value markets for certain products, coupled with manufacturing cost reductions and improved operational efficiency, as further described in the discussion of our consolidated results above.

*Selling, general and administrative expenses.* Selling general and administrative expenses were \$28.6 million for the fiscal quarter ended March 29, 2009 as compared to \$19.7 million for the fiscal quarter ended March 30, 2008. This increase of \$8.9 million, or 45.4%, resulted primarily from the JBS Packerland and Tasman Acquisitions. Excluding the JBS Packerland and Tasman Acquisitions, selling, general and administrative expenses totaled \$17.4 million for the fiscal quarter ended March 29, 2009, a decrease of \$2.3 million from the fiscal quarter ended March 30, 2008. The decrease was partially due to the 27.0% depreciation in the value of the Australian dollar as compared to the U.S. dollar between the comparative quarters.



**Depreciation and amortization expense.** Depreciation and amortization expense for the fiscal quarter ended March 29, 2009 was \$26.6 million as compared to \$14.1 million for the fiscal quarter ended March 30, 2008. This increase of \$12.5 million, or 88.2%, related to the JBS Packerland and Tasman Acquisitions. Excluding the JBS Packerland and Tasman Acquisitions, depreciation and amortization would have decreased \$0.5 million, or 3.9%, resulting primarily from the depreciation recorded on assets placed in service, offset by the impact of assets fully depreciated during the period. See Note 4, "Property, plant and equipment," to our unaudited consolidated financial statements included in this prospectus for more information about how this depreciation and amortization is reflected in our financial statements.

### **Pork segment**

**Net sales.** Net sales totaled \$526.3 million for the fiscal quarter ended March 29, 2009 as compared to \$535.5 million for the fiscal quarter ended March 30, 2008. This decrease in of \$9.2 million, or 1.7%, as compared to the fiscal quarter ended March 30, 2008, was primarily due to an overall 6.1% decrease in volume, partially offset by a 4.6% overall increase in sales prices.

**Cost of goods sold.** Cost of goods sold totaled \$513.9 million for the fiscal quarter ended March 29, 2009 as compared to \$514.8 million for the fiscal quarter ended March 30, 2008. This decrease of \$0.8 million, or 0.2%, was primarily a result of a 6.1% decrease in our Pork segment slaughter volumes partially offset by a 7.2% increase in hog prices. The following cost categories were reduced on a per head basis: storage, freight (driven by lower diesel fuel prices) and utilities (driven by lower natural gas prices and increased alternative fuel credits).

**Gross margin percentages.** Gross margin percentage (gross profit as a percentage of net sales) was 2.3% for the fiscal quarter ended March 29, 2009 as compared to 3.9% for the fiscal quarter ended March 30, 2008. This decrease of 1.6 percentage points reflects lower sales margins. Gross margin percentage was impacted by a 7.2% increase in hog prices. Sales margins were also negatively impacted by lower rendered product prices driven by lower petroleum prices. The following cost categories were reduced on a per head basis: storage, freight (driven by lower diesel fuel prices) and utilities (driven by lower natural gas prices and increased alternative fuel credits), each of which helped to partially offset the increase in hog costs.

**Selling, general, and administrative expenses.** Selling, general, and administrative expenses were \$12.0 million for the fiscal quarter ended March 29, 2009 as compared to \$11.4 million for the fiscal quarter ended March 30, 2008. These expenses increased by \$0.6 million, or 5.9%.

**Depreciation and amortization.** Depreciation and amortization expense for the fiscal quarter ended March 29, 2009 was \$6.8 million as compared to \$5.0 million for the fiscal quarter ended March 30, 2008. This increase of \$1.8 million, or 35%, resulted primarily from the depreciation recorded on assets placed in service, partially offset by the impact of assets fully depreciated during the period. See Note 4, "Property, plant and equipment," to our unaudited consolidated financial statements included in this prospectus for more information about how this depreciation and amortization is reflected in our financial statements.

### **The 173-day period from July 11, 2007 through December 30, 2007 (successor) compared to the fiscal year ended December 28, 2008 (successor)**

**Net sales.** Net sales in the 173-day period from July 11, 2007 through December 30, 2007 (successor) were \$4,989.0 million compared to \$12,362.3 million for the fiscal year ended December 28, 2008 (successor). Net sales per day increased due to per day volume increases of 12.1%, partially offset by a price decline of 6.4%.

**Cost of goods sold.** Cost of goods sold totaled \$11,917.8 million for the fiscal year ended December 28, 2008 (successor) as compared to \$5,013.1 million for the 173-day period from July 11, 2007 through December 30, 2007 (successor). This increase was due to the per day volume increases of 12.1%, partially offset by a price decline of 10.7%. In addition, the increase is also attributable to the JBS Packerland and Tasman Acquisitions, coupled with the 28.3% appreciation in the Australian dollar relative to the U.S. dollar between the two periods.

**Gross margin percentages.** Gross margin percentage (gross profit as a percentage of net sales) in the 173-day period from July 11, 2007 through December 30, 2007 (successor) was (0.5)% compared to 3.6% for the fiscal year ended December 28, 2008 (successor). The increase in gross margin percentage in the more recent period was due principally to continuing improvements in production throughput, operating costs, efficiency and product yields as employees hired subsequent to the December 12, 2006 investigation by the U.S. Department of Homeland Security's Immigration and Customs Enforcement division, or the ICE event, gained the ability to perform at the level of pre-ICE event production employees. See "Risk factors" Risks relating to our business and the beef and pork industries" Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business."

*Selling, general and administrative expenses.* Selling, general and administrative expenses in the 173-day period from July 11, 2007 through December 30, 2007 (successor) were \$60.7 million compared to \$148.8 million for the fiscal year ended December 28, 2008 (successor). Selling, general and administrative expenses per day increased due to the JBS Packerland and Tasman Acquisitions, more than offsetting the favorable impact of the company's de-layering of management effective July 13, 2007 and the renegotiation of professional service contracts in the areas of audit, tax and legal services. In addition, the Australian dollar appreciated relative to the U.S. dollar by 28.3% between the two periods.

*Foreign currency transaction, net.* Foreign currency transaction, net was a net \$5.2 million gain in the 173-day period from July 11, 2007 to December 30, 2007 as compared to a net \$76.0 million loss in the fiscal year ended December 28, 2008. The foreign currency transaction loss resulted from the depreciation of the Australian dollar relative to the U.S. dollar by 22.1% between the two period ends applied against a \$250 million intercompany note payable between JBS Swift Australia Pty Ltd and its U.S. parent company.

*Interest expense, net.* Interest expense, net for the 173-day period from July 11, 2007 through December 30, 2007 (successor) was \$34.3 million compared to \$36.4 million for the fiscal year ended December 28, 2008 (successor). This increase of 5.9% in the more recent period as compared to the prior period reflects the fact that borrowings decreased an average of \$393.2 million due primarily to improved operating cash flows, as well as a one-time cost of \$12.7 million incurred in the 2007 period associated with an unconsummated debt offering in July 2007.

*Income tax expense (benefit).* Income tax expense, net for the 173-day period from July 11, 2007 through December 30, 2007 (successor) was \$1.0 million as compared to \$31.2 million for the fiscal year ended December 28, 2008. This \$30.2 million increase is related primarily to a change in our valuation allowance due to the JBS Packerland Acquisition in which we acquired additional deferred income tax liabilities.

*Net income (loss).* As a result of the factors discussed above, we had net income for the fiscal year ended December 28, 2008 of \$161.1 million as compared to an \$111.6 million net loss for the 173-day period from July 11, 2007 to December 30, 2007.

#### **The 198-day period from December 25, 2006 to July 10, 2007 (predecessor) compared to the fiscal year ended December 24, 2006 (predecessor)**

*Net sales.* Net sales for the 198-day period from December 25, 2006 to July 10, 2007 (predecessor) were \$4,970.6 million compared to \$9,691.4 million for the fiscal year ended December 24, 2006 (predecessor). Net sales per day decreased due to volume decreases of 5.2% offset by price increases of 5.6%. In addition, the value of the Australian dollar as compared to the U.S. dollar decreased 7.1% between the two periods.

*Cost of goods sold.* Cost of goods sold totaled \$4,920.6 million for the 198-day period from December 25, 2006 to July 10, 2007 (predecessor) as compared to \$9,574.7 million for the fiscal year ended December 24, 2006 (predecessor). Cost of goods sold per day decreased due to volume decreases of 5.2%, partially offset by price increases of 5.9%. In addition, the value of the Australian dollar as compared to the U.S. dollar decreased 7.1% between the two periods.

*Gross margin percentages.* Gross margin percentage (gross profit as a percentage of net sales) for the 198-day period from December 25, 2006 to July 10, 2007 (predecessor) was 1.0% as compared to 1.2% for the fiscal year ended December 24, 2006 (predecessor). This decrease in gross margin percentage in the more recent period was due principally to the negative impact of the ICE event on production throughput, operating costs, efficiency and product yields as lesser-trained replacement workers were not able to perform at the level of pre-ICE event production employees. See [Risk factors](#) Risks relating to our business and the beef and pork industries Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business.

*Selling, general and administrative expenses.* Selling, general and administrative expenses for the 198-day period from December 25, 2006 to July 10, 2007 (predecessor) were \$92.3 million as compared to \$158.8 million for the fiscal year ended December 24, 2006 (predecessor). Selling, general and administrative expense per day increased between the two periods primarily as a result of the one-time costs of approximately \$13.0 million incurred relating sell-side expenses incurred by our predecessor in connection with the Swift Acquisition, including legal costs, employee severance costs and employee retention bonuses accrued as earned in the days immediately prior to the acquisition. These costs were partially offset by a decrease of 7.1% in the value of the Australian dollar as compared to the U.S. dollar between the two periods.

*Interest expense.* Interest expense for the 198-day period December 25, 2006 to July 10, 2007 (predecessor) was \$66.4 million as compared to \$118.8 million for the fiscal year ended December 24, 2006 (predecessor). Interest expense on a per day basis increased 2.8% in the more recent period as compared to the prior fiscal year as borrowings had increased an average of \$136.4 million due primarily to negative operating cash flows resulting from the ICE event impact on production volumes.

*Income tax expense (benefit).* Income tax benefit, net for the 198-day period from December 25, 2006 to July 10, 2007 (predecessor) was \$18.4 million as compared to \$37.3 million for the fiscal year ended December 24, 2006. This \$18.9 million decrease related primarily to a change in our valuation allowance due to our history of losses in the United States.

*Net loss.* As a result of the factors described above, we recorded a net loss for the 198-day period ended July 10, 2007 of \$83.0 million, as compared to a net loss incurred in the fiscal year ended December 24, 2006 of \$117.4 million.

### **Pro forma results of operations**

Our consolidated results of operations for the fiscal quarter ended March 29, 2009 are not fully comparable to our results of operations for the fiscal quarter ended March 30, 2008 due to (1) the Tasman Acquisition that closed on May 2, 2008 and (2) the JBS Packerland Acquisition that closed on October 23, 2008.

In addition, our consolidated results of operations for the fiscal year ended December 28, 2008 are not fully comparable to our results of operations for the fiscal year ended December 30, 2007 due to (1) the change in cost basis and recapitalization that occurred on July 11, 2007 in connection with the Swift Acquisition, (2) the Tasman Acquisition that closed on May 2, 2008 and (3) the JBS Packerland Acquisition that closed on October 23, 2008.

In light of these transactions, as well as the offering and sale of our 11.625% senior unsecured notes due 2014 that occurred in April 2009, and in order to facilitate an analysis of our financial information, we are presenting pro forma statements of operations for the fiscal quarter ended March 29, 2009 and for the fiscal year ended December 28, 2008. See [Unaudited pro forma financial statements](#).

We are also presenting supplementary pro forma statements of operations for the following periods for comparative purposes:

- the fiscal quarter ended March 30, 2008 as if (a) our offering of our 11.625% senior unsecured notes due 2014 and the application of proceeds therefrom, and (b) the JBS Packerland Acquisition, in each case, had occurred at the beginning of the period presented; and
- the fiscal year ended December 30, 2007 as if (a) the change in cost basis and recapitalization that occurred on July 11, 2007 in connection with the Swift Acquisition and (b) the JBS Packerland Acquisition, in each case, had occurred at the beginning of the period presented.

The following unaudited pro forma statements of operations tables reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions that we believe are reasonable under the circumstances, and the actual results could differ materially from these anticipated results. In our opinion, all adjustments that are necessary to present fairly the unaudited pro forma consolidated data have been made. The following unaudited pro forma statements of operations tables are presented for informational purposes only and do not purport to be indicative of what would have occurred had the JBS Packerland Acquisition, Tasman Acquisition, Swift Acquisition or the offering of our 11.625% senior unsecured notes due 2014 and the application of the proceeds therefrom actually been consummated at the beginning of the period presented, nor are they necessarily indicative of our future consolidated operating results.

# Unaudited pro forma combined statement of operations for the fiscal quarter ended March 29, 2009

in thousands, except for earnings per share	JBS USA Holdings, Inc.			JBS USA Holdings, Inc.	
	March 29, 2009	Adjustments		March 29, 2009	
	Historical	(+)	Notes	Pro forma	
Net sales .....	□ 3,196,339	□		□	3,196,339
Cost of goods sold .....	3,123,358	□			3,123,358
Gross profit.....	72,981	□			72,981
Selling, general and administrative expenses.....	61,598	□			61,598
Foreign currency transaction gains.....	(5,075)	□			(5,075)
Other income.....	(1,475)	□			(1,475)
Loss on sales of property, plant and equipment .....	180	□			180
Interest expense, net.....	14,592	10,024	(a)		24,616
Total expenses.....	69,820	10,024			79,844
Income (loss) from continuing operations before income tax .....	3,161	(10,024)			(6,863)
Income tax expense (benefit).....	909	(3,509)	(b)		(2,600)
Net income (loss) .....	□ 2,252	□ (6,515)		□	(4,263)
Basic and diluted net income (loss) per share .....	□ 22,520.00			□	(42,630.00)

(a) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	□ 117
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	1,950
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	16,302
Interest expense, intercompany debt(iv) .....	(8,345)
<b>Total interest expense, net(v) .....</b>	<b>□ 10,024</b>

- (i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 29, 2008 through March 29, 2009, calculated on a straight-line basis.
- (ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 29, 2008 through March 29, 2009, calculated on a straight-line basis.
- (iii) Includes pro forma interest expense for the period from December 29, 2008 through March 29, 2009 on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014.
- (iv) Includes the reduction of pro forma interest expense for our intercompany loans due to the \$519.6 million reduction in the aggregate principal amount of those intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.
- (v) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (iv) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

(b) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

# Unaudited pro forma combined statement of operations for the fiscal quarter ended March 30, 2008

	JBS USA Holdings, Inc.	JBS Packerland	JBS Packerland Adjustment for 50% equity interest in Five Rivers (b)	JBS Packerland Adjustment for assets not acquired (c)(i)	Five Rivers December 31, 2007 through March 30, 2008 (a)(ii)	Five Rivers Adjustment for assets not acquired (c)(ii)	Adjustment for transaction	Notes	JBS USA Holdings, Inc. December 31, 2007 through March 30, 2008	Pro forma
in thousands, except earnings per share	Historical	Historical	Historical	Historical	Historical	Historical	Historical	Notes	Historical	Pro forma
share	(+)	(+)	(-)	(-)	(+)	(-)	(+)	(+)	(+)	(+)
Net sales .....	□ 2,461,657	□ 729,130	□ □	□ 775	□ 480,701	□ 325,614	□ (960)	(d)	□ 3,344,139	□ 3,344,139
Cost of goods sold .....	2,451,413	696,897	□	(3,389)	473,618	329,215	2,705	(d),(e)	3,298,807	3,298,807
Gross profit .....	10,244	32,233	□	4,164	7,083	(3,601)	(3,665)		45,332	45,332
Selling, general and administrative expenses .....	31,042	22,168	□	6,319	3,473	□	1,202	(e)	51,566	51,566
Foreign currency transaction gains .....	(12,614)	□	□	□	□	□	□		(12,614)	(12,614)
Other income (expense) .....	(3,782)	2,136	884	1,290	(78)	42	□		(3,940)	(3,940)
Loss on sales of property, plant and equipment .....	19	1	□	□	2	□	□		22	22
Interest expense, net .....	8,108	10,352	□	10,402	5,453	5,453	12,172	(f)	20,230	20,230
Total expenses .....	22,773	34,657	884	18,011	8,850	5,495	13,374		55,264	55,264
Loss from continuing operations before income tax .....	(12,529)	(2,424)	(884)	(13,847)	(1,767)	(9,096)	(17,037)		(9,932)	(9,932)
Income tax expense (benefit) .....	5,613	558	□	558	□	□	907	(g)	6,520	6,520
Net income (loss) .....	□ (18,142)	□ (2,982)	□ (884)	□ (14,405)	□ (1,767)	□ (9,096)	□ (17,946)		□ (16,452)	□ (16,452)
Basic and diluted net income (loss) per share .....	□ (181,420.00)									□ (164,520.00)

(a) Represents the historical results of

- (i) JBS Packerland, and
- (ii) Five Rivers

for the period from December 31, 2007 through March 30, 2008.

(b) Represents the elimination of the 50% equity interest in Five Rivers from the historical results of JBS Packerland for the period December 31, 2007 through March 30, 2008. On a pro forma basis, the results of Five Rivers are reflected on a fully consolidated basis as part of the JBS Packerland Acquisition.

(c) Reflects the elimination of assets not acquired for

- (i) JBS Packerland, and
- (ii) Five Rivers.

The adjustment for assets not acquired includes (1) revenue and expenses associated with cattle owned by Smithfield Beef Group, Inc. that were retained by Smithfield Foods, Inc., (2) revenue and expenses associated with cattle owned by Five Rivers that were retained by Smithfield Foods, Inc., (3) the elimination of corporate overhead charge by Smithfield Foods, Inc. and (4) other assets and insignificant businesses not acquired and liabilities not assumed.

(d) Reflects the elimination of \$0.9 million of intercompany sales and \$0.9 million of cost of goods sold between JBS Packerland and our legacy Swift Beef segment for the period from December 31, 2007 through March 30, 2008.

(e) Represents the adjustment of \$3.6 million to historical cost of goods sold and \$1.2 million for selling, general and administrative expense to reflect depreciation and amortization expense based on the estimated fair values and useful lives of identified tangible and intangible assets for JBS Packerland and

Five Rivers based on a preliminary third-party valuation report. The purchase price allocation is preliminary pending completion of independent valuations of identified tangible and intangible assets acquired and certain liabilities acquired, including, but not limited to deferred taxes. The allocation of the purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands), and the following table details the purchase price components:

Purchase price allocation:	
Purchase price paid to previous shareholders .....	\$537,068
Fees and direct expenses .....	26,134
<b>Total purchase price .....</b>	<b>\$563,202</b>
Preliminary purchase price allocation:	
Current assets and liabilities .....	\$43,052
Property, plant and equipment(i) .....	423,955
Deferred tax liabilities .....	(142,997)
Goodwill .....	95,998
Intangible assets(ii) .....	138,023
Other noncurrent assets and liabilities, net .....	5,171
<b>Total purchase price allocation .....</b>	<b>\$563,202</b>

(i) Property, plant and equipment was recorded at fair value at the date of the JBS Packerland Acquisition. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment .....	5 to 15 years
Buildings and improvements .....	15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

(ii) Intangible assets include customer relationships and customer contracts resulting from the JBS Packerland Acquisition that are being amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability.

(f) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	\$117
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	1,950
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	16,302
Interest expense, other debt(iv) .....	(6,197)
<b>Total Interest expense, net(v) .....</b>	<b>\$12,172</b>

(i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through March 30, 2008, calculated on a straight-line basis.

(ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through March 30, 2008, calculated on a straight-line basis.

(iii) Includes pro forma interest expense on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through March 30, 2008.

(iv) Includes the reduction of pro forma interest expense for the period from December 31, 2007 through March 30, 2008 on our outstanding bank debt and intercompany loans from JBS S.A. due to a \$519.6 million reduction in the aggregate principal amount of those intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.

(v) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (iv) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

(g) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

### Pro forma fiscal quarter ended March 29, 2009 compared to the pro forma fiscal quarter ended March 30, 2008

**Net sales.** Net sales were \$3,196.3 million for the pro forma fiscal quarter ended March 29, 2009 as compared to \$3,344.1 million for the pro forma fiscal quarter ended March 30, 2008. Net sales decreased by \$147.8 million, or 4.4%, due to a sales price decrease of 10.6% in Beef segment prices coupled with a decrease in slaughter volumes of 1.6% in the legacy Swift beef facilities and a 6.1% decrease in hog slaughter volumes in our Pork segment, which was partially offset by a 4.6% increase in Pork segment prices. The addition of smalls in Australia for the period ended March 29, 2009 was the primary driver of the decline in per unit selling prices in our Beef segment. For calculation of the price changes in the period subsequent to the Tasman Acquisition, we have used a 12 to 1 ratio of smalls to cattle equivalents based on relative weights. The value of the Australian dollar as compared to the U.S. dollar declined 27.0% between the two periods. The 1.6% decrease in slaughter volumes was primarily due to overall differences in market conditions, including demand and margins, and the 6.1% decrease in the Pork segment was primarily due to overall differences in market conditions, including demand and margins.

*Cost of goods sold.* Cost of goods sold totaled \$3,123.4 million for the pro forma fiscal quarter ended March 29, 2009 as compared to \$3,298.8 million for the pro forma fiscal quarter ended March 30, 2008. Cost of goods sold decreased \$175.5 million, or 5.3%, for the pro forma fiscal quarter ended March 29, 2009 as compared to the pro forma fiscal quarter ended March 30, 2008. Cost of goods sold declined in our Beef segment as a result of an 11.7% decrease in cattle prices coupled with a 1.6% decrease in slaughter volumes in the legacy Swift beef facilities. In addition, we recorded a 0.2% decrease in cost of goods sold in our Pork segment driven by a 6.1% decrease in slaughter volumes, partially offset by a 7.2% increase in hog prices. We demonstrated reductions in per head cost for the following categories: lower freight costs, hourly wages including overtime, utilities costs (driven by lower natural gas prices), repairs and maintenance costs and storage costs.

*Gross margin percentages.* Gross margin percentage (gross profit as a percentage of net sales) was 2.3% for the pro forma fiscal quarter ended March 29, 2009 as compared to 1.4% for the pro forma fiscal quarter ended March 30, 2008. This increase reflected improvements in sales markets which place higher value on certain cuts, reductions in our operating costs and improvements in plant efficiency and yields. The increase also reflects a margin increase of 1.4% in our Beef segment, partially offset by a margin decrease of 1.5% in our Pork segment. Margin enhancements in our Beef segment reflect cost reductions due to renegotiation of supply contracts, elimination of certain third-party service providers (including cattle hotelling, lab services, and maintenance service providers) and the insourcing of these items at lower cost, operational yield enhancements which generated additional pounds to sell from each carcass and improved margins due to enhanced product mix resulting from the increases in volumes sold to international markets where products like the special cuts described above generate a higher return. Margin declines in our Pork segment were driven by a 7.2% increase in hog prices which could not be fully passed on through higher selling prices, especially for rendered products used for fuel for which demand and prices were lower due to lower petroleum product demand and prices from period to period.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$61.6 million for the pro forma fiscal quarter ended March 29, 2009 as compared to \$51.6 million for the pro forma fiscal quarter ended March 30, 2008. These expenses increased by \$10.0 million, or 19.4%. During the pro forma fiscal quarter ended March 29, 2009, we reached an agreement to terminate our efforts to acquire National Beef, and as a result, we paid a breakage fee to the shareholders of National Beef totaling \$19.9 million, and we recorded as an expense the related incurred legal costs totaling an additional \$1.0 million. These non-recurring costs, totaling \$20.9 million were recorded in selling, general and administrative expenses in the "Corporate and other" segment. This increase was partially offset by the effect of the depreciation of 27.0% in the value of the Australian dollar as compared to the U.S. dollar between the comparative fiscal quarters.

*Foreign currency transaction, net.* Foreign currency transaction, net for the pro forma fiscal quarter ended March 29, 2009 was a gain of \$5.1 million as compared to a gain of \$12.6 million for the pro forma fiscal quarter ended March 30, 2008. This \$7.5 million decrease related to the variation in the value of the Australian dollar as compared to the U.S. dollar on our U.S. dollar-denominated intercompany note payable and receivable within Australia. The value of the Australian dollar as compared to the U.S. dollar depreciated 24.4% between the two period ends.

*Interest expense, net.* Interest expense was \$24.6 million for the pro forma fiscal quarter ended March 29, 2009 as compared to \$20.2 million for the pro forma fiscal quarter ended March 30, 2008. Interest expense increased by \$4.4 million, or 21.8%, due primarily to increased borrowings under our revolving credit facility in 2009 that accrued interest at a higher average interest rate than the interest rate applicable to our intercompany loans in 2008.

*Income tax expense, net.* Income tax expense, net for the pro forma fiscal quarter ended March 29, 2009 was a benefit of \$2.6 million as compared to an expense of \$6.5 million for the pro forma fiscal quarter ended March 30, 2008. The expense for both periods relates mainly to our Australian operations as we had established a valuation allowance in the United States. Therefore, the \$9.1 million decrease related to a decrease in our international income.

*Net income.* Our pro forma net income for the fiscal quarter ended March 29, 2009 was a loss of \$4.3 million compared to a loss of \$16.5 million in the prior period as a result of the factors described above.

# Unaudited pro forma combined statement of operations for the fiscal year ended December 28, 2008

	JBS USA Holdings, Inc.	JBS Packerland	JBS Packerland	JBS Packerland	Five Rivers	Five Rivers		JBS USA Holdings, Inc.	
	Fiscal year ended December 28, 2008	December 31, 2007 through October 22, 2008 (a)(i)	Adjustment for 50% equity interest in Five Rivers (b)	Adjustment for assets not acquired (c)(i)	December 31, 2007 through October 22, 2008 (a)(ii)	Adjustment for assets not acquired (c)(ii)	Adjustment for transaction	Fiscal year ended December 28, 2008	
	Historical	Historical			Historical			Notes	
<b>in thousands, except earnings per share</b>	(+)	(+)	(-)	(-)	(+)	(-)	(+)	Pro forma	
Net sales .....	12,362,281	2,548,224	□	4,923	1,461,140	912,920	(8,011)	(d)	15,445,791
Cost of goods sold .....	11,917,777	2,397,551	□	4,949	1,511,462	988,814	4,724	(d),(e)	14,837,751
Gross profit (loss) .....	444,504	150,673	□	(26)	(50,322)	(75,894)	(12,735)		608,040
Selling, general and administrative expenses .....	148,785	78,793	□	24,017	11,093	9	4,052	(e)	218,697
Foreign currency transaction losses .....	75,995	□	□	□	□	□	□		75,995
Other income, net .....	(10,107)	44,465	39,139	5,555	(208)	(74)	□		(10,470)
Loss on sales of property, plant and equipment .....	1,082	107	□	□	131	224	□		1,096
Interest expense, net .....	36,358	30,837	□	31,005	16,940	16,940	46,431	(f)	82,621
Total expenses ...	252,113	154,202	39,139	60,577	27,956	17,099	50,483		367,939
Income (loss) from continuing operations before .....	192,391	(3,529)	(39,139)	(60,603)	(78,278)	(92,993)	(63,218)		240,101
Income tax expense .....	31,287	2,222	□	2,222	□	□	16,699	(g)	47,986
Net income (loss)	161,104	(5,751)	(39,139)	(62,825)	(78,278)	(92,993)	(79,917)		192,115
Basic and diluted net income (loss) per share .....	□ 1,611,040.00								□ 1,921,150.00

(a) Represents the historical results of

(i) JBS Packerland, and

(ii) Five Rivers

for the period from December 31, 2007 through October 22, 2008.

(b) Represents the elimination of the 50% equity interest in Five Rivers from the historical results of JBS Packerland for the period December 31, 2007 through October 22, 2008. On a pro forma basis, the results of Five Rivers are reflected on a fully consolidated basis as part of the JBS Packerland Acquisition.

(c) Reflects the elimination of assets not acquired for

(i) JBS Packerland, and

(ii) Five Rivers.

The adjustment for assets not acquired includes (1) revenue and expenses associated with cattle owned by Smithfield Foods, Inc. that were retained by Smithfield Foods, Inc., (2) revenue and expenses associated with cattle owned by Five Rivers that were retained by Smithfield Foods, Inc., (3) the elimination of corporate overhead charge by Smithfield Foods, Inc. and (4) other assets and insignificant businesses not acquired and liabilities not assumed.

(d) Reflects the elimination of \$8.0 million of intercompany sales and \$8.0 million of cost of goods sold between JBS Packerland and our Beef segment for the period from December 31, 2007 through October 22, 2008.

(e) Represents the adjustment of \$12.7 million to historical cost of goods sold and to selling, general and administrative expense of \$4.1 million to reflect depreciation and amortization expense based on the estimated fair values and useful lives of identified tangible and intangible assets for JBS Packerland and Five Rivers based on a preliminary third-party valuation report. The purchase price allocation is preliminary pending completion of independent valuations of identified tangible and intangible assets acquired and certain liabilities acquired, including, but not limited to deferred taxes. The allocation of the purchase



price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands), and the following table details the purchase price components:

Purchase price allocation:	
Purchase price paid to previous shareholders .....	\$537,068
Fees and direct expenses .....	26,134
<b>Total purchase price .....</b>	<b>\$563,202</b>
Preliminary purchase price allocation:	
Current assets and liabilities .....	\$43,052
Property, plant and equipment(i).....	423,955
Deferred tax liabilities.....	(142,997)
Goodwill .....	95,998
Intangible assets(ii).....	138,023
Other noncurrent assets and liabilities, net.....	5,171
<b>Total purchase price allocation .....</b>	<b>\$563,202</b>

(i) Property, plant and equipment was recorded at fair value at the date of the JBS Packerland Acquisition. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	.5 to 7 years
Machinery and equipment.....	.5 to 15 years
Buildings and improvements .....	.15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

(ii) Intangible assets include customer relationships and customer contracts resulting from the JBS Packerland Acquisition that are being amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability.

(f) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	\$ 467
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	7,802
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	65,209
Interest expense, intercompany debt(iv).....	(27,047)
<b>Total Interest expense, net(v) .....</b>	<b>\$46,431</b>

(i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008, calculated on a straight-line basis.

(ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008, calculated on a straight-line basis.

(iii) Includes pro forma interest expense on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014 for the period from December 31, 2007 through December 28, 2008.

(iv) Includes the reduction of pro forma interest expense for the period from December 31, 2007 through December 28, 2008 on our consolidated intercompany loans from JBS S.A. due to a \$519.6 million reduction in the aggregate principal amount of those intercompany loans using a portion of the net proceeds of our 11.625% senior unsecured notes due 2014.

(v) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (iv) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

(g) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

# Unaudited pro forma combined statement of operations for the fiscal year ended December 30, 2007

		JBS USA Holdings, Inc.	JBS USA Holdings, Inc.	JBS Packerland	JBS Packerland	JBS Packerland	Five Rivers	Five Rivers		JBS USA Holdings, Inc.	
		Dec. 25, 2006 to July 10, 2007 (a)	July 11, 2007 to Dec. 30, 2007 (a)	Dec. 25, 2006 through Dec. 30, 2007 (b)(i)	Adjust- ment for 50% equity interest in Five Rivers (c)	Adjust- ment for assets not acquired (d)(i)	Dec. 25, 2006 through Dec. 30, 2007 (b)(ii)	Adjust- ment for assets not acquired (d)(ii)	Adjust- ment for trans- action	Dec. 25, 2006 to Dec. 30, 2007	
in thousands, except earnings per share		Historical	Historical	Historical	(-)	(-)	Historical	(-)	(+)	Notes	Pro forma
		(+)	(+)	(+)	(-)	(-)	(+)	(-)	(+)		
Net sales .....	□	4,970,624	4,988,984	2,823,496	□	8,083	1,995,238	1,410,422	(6,091)	(e)	13,353,746
Cost of goods sold .....		4,920,594	5,013,084	2,750,464	□	41,475	1,941,093	1,393,107	18,917	(e),(f),(g)	13,209,570
Gross profit (loss) .....		50,030	(24,100)	73,032	□	(33,392)	54,145	17,315	(25,008)		144,176
Selling, general and administrative expenses .....		92,333	60,727	60,850	□	1,938	12,953	□	10,012	(f),(g)	234,937
Foreign currency transaction gains .....		(527)	(5,201)	□	□	□	□	□	□		(5,728)
Other income, net .....		(3,821)	(3,581)	(7,635)	(7,446)	(79)	(1,996)	(54)	□		(9,454)
(Gain) loss on sales of property, plant and equipment .....		(2,946)	182	133	□	□	324	□	□		(2,307)
Interest expense, net .....		66,383	34,340	41,056	□	41,056	27,972	28,136	(13,974)	(h)	86,585
Total expenses .....		151,422	86,467	94,404	(7,446)	42,915	39,253	28,082	(3,962)		304,033
Income (loss) from continuing operations before income tax .....		(101,392)	(110,567)	(21,372)	7,446	(76,307)	14,892	(10,767)	(21,046)		(159,857)
Income tax expense (benefit) .....		(18,380)	1,025	□	□	□	□	□	18,236	(i)	881
Net income (loss) .....	□	(83,012)	(111,592)	(21,372)	7,446	(76,307)	14,892	(10,767)	(39,282)		(160,738)
Basic and diluted net income (loss) per share(j) .....		N/A	(1,115,920.00)								(1,607,380.00)

- (a) Represents the historical results of JBS USA Holdings, Inc. for the period from December 25, 2006 through July 10, 2007 (predecessor) and the period from July 11, 2007 through December 30, 2007 (successor).
- (b) Represents the historical results of
- (i) JBS Packerland, and
  - (ii) Five Rivers
- for the period from December 25, 2006 through December 30, 2007.
- (c) Represents the elimination of the 50% equity interest in Five Rivers from the historical results of JBS Packerland for the period from December 25, 2006 through December 30, 2007. On a pro forma basis, the results of Five Rivers are reflected on a fully consolidated basis as part of the JBS Packerland Acquisition.
- (d) Reflects the elimination of assets not acquired for
- (i) JBS Packerland, and
  - (ii) Five Rivers.
- The adjustment for assets not acquired includes (1) revenue and expenses associated with cattle owned by Smithfield Beef Group, Inc. that were retained by Smithfield Foods, Inc., (2) revenue and expenses associated with cattle owned by Five Rivers that were retained by Smithfield Foods, Inc., (3) the elimination of corporate overhead charge by Smithfield Foods, Inc. and (4) other assets and insignificant businesses not acquired and liabilities not assumed.
- (e) Reflects the elimination of \$6.1 million of intercompany sales and \$6.1 million of cost of goods sold between JBS Packerland and our legacy Swift Beef segment for the period from December 25, 2006 through December 30, 2007.

- (f) Represents the adjustment of \$15.4 million to historical cost of goods sold and to selling, general and administrative expenses of \$4.7 million to reflect an increase in depreciation and amortization expense based on the estimated fair values and useful lives of identified tangible and intangible assets for JBS Packerland and Five Rivers, based on a preliminary third-party valuation report. The purchase price allocation is preliminary pending completion of independent valuations of identified tangible and intangible assets acquired and certain liabilities acquired, including, but not limited to deferred taxes. The allocation of the purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands), and the following table details the purchase price components:

Purchase price allocation:	
Purchase price paid to previous shareholders .....	\$537,068
Fees and direct expenses .....	26,134
<b>Total purchase price .....</b>	<b>\$563,202</b>
Preliminary purchase price allocation:	
Current assets and liabilities .....	\$43,052
Property, plant and equipment(i) .....	423,955
Deferred tax liabilities .....	(142,997)
Goodwill .....	95,998
Intangible assets(ii) .....	138,023
Other noncurrent assets and liabilities, net .....	5,171
<b>Total purchase price allocation .....</b>	<b>\$563,202</b>

- (i) Property, plant and equipment was recorded at fair value at the date of the JBS Packerland Acquisition. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment .....	5 to 15 years
Buildings and improvements .....	15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

- (ii) Intangible assets include customer relationships and customer contracts resulting from the JBS Packerland Acquisition which are being amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability.

- (g) Represents the adjustment of \$9.6 million to historical cost of goods sold and \$5.3 million to selling, general and administrative expenses to reflect depreciation and amortization expense based on the fair values and useful lives of identified tangible and intangible assets for the Swift Acquisition. The aggregate purchase price for the acquisition was \$1,470.6 million (including approximately \$48.5 million of transaction costs). We accounted for the acquisition in accordance with the Statement of Financial Accounting Standard No. 141, *Business Combinations*.
- (h) Reflects the following adjustments to interest expense, net relating to the transactions:

Debt issuance amortization, 11.625% senior unsecured notes due 2014(i) .....	\$ 467
Debt discount accretion, 11.625% senior unsecured notes due 2014(ii) .....	7,802
Interest expense, 11.625% senior unsecured notes due 2014(iii) .....	65,209
Interest expense, predecessor(iv) .....	(102,573)
Interest expense, successor(v) .....	15,121
<b>Total Interest expense, net(vi) .....</b>	<b>\$ (13,974)</b>

- (i) Includes pro forma interest expense for the amortization of debt issuance costs on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 25, 2006 through December 30, 2007, calculated on a straight-line basis.

- (ii) Includes pro forma interest expense for the accretion of the bond discount on \$560.9 million of our 11.625% senior unsecured notes due 2014 for the period from December 25, 2006 through December 30, 2007, calculated on a straight-line basis.

- (iii) Includes pro forma interest expense on \$560.9 million (\$519.6 million of proceeds plus \$39.0 million of bond discount and \$2.3 million of debt issuance cost) of our 11.625% senior unsecured notes due 2014 for the period from December 25, 2006 through December 30, 2007.

- (iv) Includes pro forma elimination of predecessor interest expense for the period from December 25, 2006 through December 30, 2007 related to debt that was repaid in connection with the Swift Acquisition.

- (v) Includes pro forma interest expense related to the residual outstanding balance of \$230.4 million on unsecured bank loans resulting from the reduction of an initial \$750.0 million in aggregate principal amount of those unsecured bank loans in connection with the Swift Acquisition reduced by the pro forma application of the net proceeds of \$519.6 million in aggregate principal amount of 11.625% senior unsecured notes due 2014, calculated using an average interest rate of 6.37%.

- (vi) We have applied the adjustments in clauses (i), (ii) and (iii) above to \$560.9 million in proceeds, bond discount and debt issuance costs of our 11.625% senior unsecured notes due 2014 because that is the amount of debt we would have to have issued to repay the portion of our intercompany loans from JBS S.A. described in clause (v) above. The total principal amount of our 11.625% senior secured notes due 2014 is \$700.0 million, and our pro forma interest expense accordingly does not purport to be indicative of what our interest expense will be in the future.

- (i) Reflects the tax effect of the pro forma adjustments at an estimated 35% effective tax rate.

- (j) The capital structure of our predecessor company was significantly different from our capital structure. Prior to this offering, our capital structure consists of 100 common shares issued and outstanding, and we do not have any warrants or options that may be exercised. Accordingly, we do not believe our predecessor company's earnings per share information is meaningful to investors and have not included such information.

**Pro forma fiscal year ended December 28, 2008 (53 weeks) compared to the pro forma fiscal year ended December 30, 2007 (52 weeks)**

*Net sales.* Net sales were \$15,445.8 million for the pro forma fiscal year ended December 28, 2008 as compared to \$13,353.7 million for the pro forma fiscal year ended December 30, 2007. Net sales increased by \$2,092.0 million, or 15.7%, primarily reflecting an overall 7.3% increase in volume combined with a 3.9% overall increase in sales prices. The volume increase was primarily due to an additional week of operating activity in the fiscal year ended December 28, 2008, coupled with increases in production volumes from the ramp-up of the Greeley plant's second shift commencing in September 2007. The sales price increase included a 4.1% increase in Beef prices and a 2.2% increase in Pork prices. Volumes increased 13.0% in our Beef segment and 3.8% in our Pork segment. The volume increases in our Pork segment occurred across all of our facilities. The volume increases in our Beef segment were driven primarily by adding the second shift of production at our Greeley plant, but they also included volume increases at all of our Beef segment plants in the United States. In part, these volume increases were attributable to the return in mid-year 2008 of the South Korean beef market, as well as the identification of markets which maximize the margin of certain cuts, such as short rib to South Korea, *picanha* to Brazil, and the introduction of Australian meat to South American markets. For calculation of the price changes in the period subsequent to the Tasman Acquisition, we have used a 12 to 1 ratio of smalls to cattle equivalents based on relative weights. The value of the Australian dollar average exchange rate relative to the U.S. dollar declined 0.1% between the two periods, which negatively affected net sales from our Australian operations in U.S. dollar terms.

*Cost of goods sold.* Cost of goods sold totaled \$14,837.8 million for the pro forma fiscal year ended December 28, 2008 as compared to \$13,209.6 million for the pro forma fiscal year ended December 30, 2007. The increase, of \$1,628.2 million, or 12.3%, was partially due to an additional week of operating activity in the fiscal year ended December 28, 2008. Cost of goods sold increased 13.7% in our Beef segment as a result of a 0.6% increase in cattle prices and a 13.0% increase in slaughter volumes, coupled with a 5.6% increase in our Pork segment driven by a 1.7% increase in hog prices and a 3.8% increase in slaughter volumes. Although total cost of sales increased year over year due to increased production volumes, we demonstrated reductions in per head cost for the following categories: renegotiation of contracts, operational performance improvements, packaging, freight, hourly labor, overtime, maintenance, contract services and operating supplies.

*Gross margin percentages.* Gross margin percentage (gross profit as a percentage of net sales) was 3.9% for the pro forma fiscal year ended December 28, 2008 as compared to 1.1% for the pro forma fiscal year ended December 30, 2007. This increase reflects improvements in sales to markets which place higher value on certain cuts, reductions in our operating costs and improvements in plant efficiency and yields. This increase reflects a margin increase of 3.4% in our Beef segment and a margin increase of 0.5% in our Pork segment. Margin enhancements in our Beef segment reflect cost reductions due to the renegotiation of supply contracts, elimination of certain third-party service providers (including cattle hotelling, lab services and maintenance service providers) and the insourcing of these items at lower cost, operational yield enhancements which generated additional pounds to sell from each carcass and improved margins due to enhanced product mix resulting from the increases in volumes sold to international markets where products like the special cuts described above generate a higher return.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$218.7 million for the pro forma fiscal year ended December 28, 2008 as compared to \$234.9 million for the pro forma fiscal year ended December 30, 2007. These expenses decreased by \$16.2 million, or 6.9%. The reduction in selling, general and administrative costs was a result of increased management focus on spending, the elimination of outside consultants, reductions in professional service fees and reductions in the number of executive management personnel in mid-2007 for which a full year of cost savings is reflected in fiscal 2008, partially offset by the inclusion of higher management incentives in fiscal 2008 due to improved business performance. In addition, the 0.1% decrease in the value of the Australian dollar relative to the U.S. dollar between the periods contributed to the decrease in expenses, partially offset by the additional week of operating expenses for the period ended December 28, 2008.

*Foreign currency transaction, net.* Foreign currency transaction, net for the pro forma fiscal year ended December 28, 2008 was a loss of \$76.0 million as compared to a gain of \$5.7 million for the pro forma fiscal year ended December 30, 2007. This decrease of \$81.7 million related to the variation in the exchange rate relating to the U.S. dollar-denominated intercompany note payable and receivable in Australia. The value of the Australian dollar relative to the U.S. dollar decreased 20.1% between the two periods.

*Interest expense, net.* Interest expense, net was \$82.6 million for the pro forma fiscal year ended December 28, 2008 as compared to \$86.6 million for the pro forma fiscal year ended December 30, 2007. Interest expense, net decreased by \$4.0 million, or 4.6%, due primarily to reduced borrowings.

*Income tax expense, net.* Income tax expense, net for the pro forma fiscal year ended December 28, 2008 was \$48.0 million as compared to \$1.0 million for the pro forma fiscal year ended December 30, 2007. This \$47.0 million decrease is related primarily to a change in our valuation allowance due to the JBS Packerland Acquisition in which we acquired additional deferred tax liabilities.

*Net income.* Our pro forma net income for the fiscal year ended December 28, 2008 was \$192.1 million as compared to a net loss of \$160.7 million for the fiscal year ended December 30, 2007.

## Liquidity and capital resources

Our ongoing operations require the availability of funds to service debt, fund working capital needs, invest in our business, and pay our liabilities. We currently finance and expect to continue to finance these activities through cash flow from operations and from amounts available under our senior secured revolving credit facility.

As of March 29, 2009, we had working capital of \$745.7 million compared to \$829.1 million as of December 28, 2008. The decrease from December 2008 is primarily due to normal seasonality factors in the beef and pork industries. Our average Days Inventory Outstanding, or DIO, and Days Sales Outstanding, or DSO, for the fiscal quarter ended March 29, 2009 were 18.9 and 14.6, respectively, compared to 20.1 and 16.2, respectively, for the fiscal quarter ended March 30, 2008. We consider accounts receivable and inventory to be readily convertible to cash and an additional source of cash liquidity as compared to companies and industries with longer DSO or DIO.

We believe that cash on hand, cash flows from operations, availability under our senior secured revolving credit facility and other long-term borrowings will be sufficient to meet ongoing operating requirements, make scheduled principal and interest payments on debt, and fund ordinary capital expenditures for the foreseeable future. Our ability to generate sufficient cash, however, is subject to certain general economic, financial, industry, legislative, regulatory and other factors beyond our control. Capital expenditures for 2009 are expected to approximate \$150 million, of which approximately 50% is expected to be for maintenance and the remainder for major renewals, improvements and the development of new processing capabilities. We anticipate that we may spend approximately \$1.5 billion to \$2.0 billion from 2010 through 2012, of which approximately \$500 million is expected to be for maintenance, major renewals, improvements and the development of new processing capabilities, and the remainder, or approximately \$1.0 to 1.5 billion, may be used to fund our strategy to enhance our direct distribution capabilities.

## Cash flows

*Operating activities.* Net cash provided by (used in) operating activities increased to \$282.1 million for the fiscal year ended December 28, 2008 as compared to \$(110.7) million for the 173-day period from July 11, 2007 through December 30, 2007 (successor) and \$(107.8) million for the 198-day period December 25, 2006 to July 10, 2007 (predecessor), respectively. The primary source of operational cash flow improvements was improved operational results between the periods driven by increased volumes, higher sales margins and lower operating costs, coupled with a deferred revenue advance payment of \$175.0 million. See External sources of liquidity and description of indebtedness Customer advance payment relating to raw material supply agreement.

Net cash provided by (used in) operating activities increased by \$179.9 million to \$51.0 million for the fiscal quarter ended March 29, 2009 as compared to \$(128.9) million for the fiscal quarter ended March 30, 2008. The increase is attributable to improved margins which are the result of improvements in our sales product mix, identification of higher value markets for certain of our products, reduction in our manufacturing costs and improved operational efficiencies including year-over-year inventory management.

*Investing activities.* Cash used in investing activities totaled \$783.7 million for the fiscal year ended December 28, 2008 as compared to cash used of \$39.4 million for the 173-day period July 11, 2007 through December 30, 2007 (successor) and \$27.8 million for the 198-day period December 25, 2006 to July 10, 2007 (predecessor), respectively. The primary factors in the increase in investments were the JBS Packerland and Tasman Acquisitions during the fiscal year ended December 28, 2008.

Cash used in investing activities totaled \$206.4 million for the fiscal year quarter ended March 29, 2009 as compared to cash used of \$15.4 million for the fiscal quarter ended March 30, 2008. The increase in cash used was primarily due to the issuance by us of a \$171.3 million note receivable to an unconsolidated affiliate. The cash we loaned to the affiliate was used to acquire live cattle to feed in the Five Rivers feedlots and ultimately to be delivered for processing to our Beef segment plants. See Certain relationships and related party transactions Arrangements with JF Oklahoma Cattle purchase and sale agreement.

*Financing activities.* For the fiscal year ended December 28, 2008, cash provided by financing activities totaled \$571.3 million, as compared to cash provided by financing activities of \$346.7 million for the 173-day period July 11, 2007 through December 30, 2007 (successor) and \$100.5 million for the 198-day period December 25, 2006 to July 10, 2007 (predecessor), respectively. The primary source of the increase in financing activities was the increase in capital contributions from our parent and intercompany borrowings as compared to the prior year periods.

Cash provided by financing activities totaled \$55.7 million for the fiscal quarter ended March 29, 2009, an increase of \$22.1 million from the fiscal quarter ended March 30, 2008. The increase resulted primarily from increased borrowings under our senior secured revolving credit facility in the current year while the prior year funding was from investments from JBS S.A., net of payments on outstanding debt.

### **External sources of liquidity and description of indebtedness**

Our primary financing objective is to maintain a balance sheet that provides the flexibility to pursue our business strategy. To finance our working capital needs, we utilize cash flow from operations and borrow from our senior secured revolving credit facility in addition to a combination of equity and long-term debt to finance non-current assets.

### **Senior secured revolving credit facility**

On November 5, 2008, we entered into a senior secured revolving credit facility that allows borrowings up to \$400.0 million, and terminates on November 5, 2011. On April 22, 2009, we entered into an amendment to our senior secured revolving facility that allows us to request an increase in the size of the facility to \$500.0 million, to the extent we receive additional commitments.

Up to \$75.0 million of the revolving credit facility is available for the issuance of letters of credit. Borrowings that are index rate loans will bear interest at a per annum rate equal to the prime rate plus a margin of 2.25% while LIBOR rate loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin of 3.25%. At March 29, 2009, the rates were 5.50% and 3.75%, respectively. Upon approval by the lender, LIBOR rate loans may be taken for one-, two-, or three-month terms (or six months at the discretion of the agent under our senior secured revolving credit facility).

*Availability.* Availability under our senior secured revolving credit facility is subject to a borrowing base. The borrowing base is based on certain of our domestic wholly owned subsidiaries' assets as described below, with the exclusion of Five Rivers. The borrowing base consists of percentages of eligible accounts receivable, inventory, and supplies and less certain eligibility and availability reserves. As of March 29, 2009, our borrowing base totaled \$303.6 million.

*Security and guarantees.* Borrowings made by us and all guarantees of those borrowings are collateralized by a first priority perfected lien and interest in accounts receivable, inventory, and general intangibles related thereto and proceeds of the foregoing.

*Covenants.* Our senior secured revolving credit facility contains customary representations and warranties and a springing financial covenant that requires a minimum fixed charge coverage ratio of not less than 1.15 to 1.00. The fixed charge coverage ratio is defined as the ratio of EBITDA to fixed charges, each as defined in our senior secured revolving credit facility. This ratio is only applicable if borrowing availability falls below the minimum threshold, which is the greater of 20% of the aggregate commitments or \$70.0 million. Our senior secured revolving credit facility also contains negative covenants that limit our ability and the ability of our subsidiaries to, among other things:

- make capital expenditures greater than \$175.0 million per year;
- incur additional indebtedness;
- create liens on property, revenue, or assets;
- make certain loans or investments;
- sell or dispose of assets;
- pay certain dividends and other restricted payments;
- prepay, cancel or amend certain indebtedness;
- dissolve, consolidate, merge, or acquire the business or assets of other entities;
- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
- enter into new lines of business;
- enter into certain transactions with affiliates; and

- enter into sale/leaseback transactions.

*Events of default.* Our senior secured revolving credit facility also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in our senior secured revolving credit facility, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien, and certain events related to bankruptcy and insolvency or ERISA matters. If an event of default occurs the lenders under our senior secured revolving credit facility may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest, and fees and exercise remedies under the collateral documents relating to our senior secured revolving credit facility. At March 29, 2009, we were in compliance with all covenants.

#### **11.625% senior unsecured notes due 2014**

Our wholly owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc. issued 11.625% notes due 2014 in an aggregate principal amount of \$700.0 million on April 27, 2009. These notes are guaranteed by JBS S.A., us, JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A., the selling stockholder in this offering and our direct controlling stockholder), and each of our U.S. restricted subsidiaries that guarantee our senior secured revolving facility (subject to certain exceptions). Interest on these notes accrues at a rate of 11.625% per annum and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2009. The principal amount of these notes is payable in full on May 1, 2014.

*Covenants.* The indenture for the 11.625% senior unsecured notes due 2014, contains customary negative covenants that limit our, JBS USA, LLC's and restricted subsidiaries' ability to, among other things:

- incur additional indebtedness subject to complying with certain net debt to EBITDA incurrence ratios;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to our shareholders;
- permit restrictions on dividends and other restricted payments by its restricted subsidiaries;
- enter into related party transactions;
- enter into sale/leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

*Events of default.* The indenture also contains customary events of default, including failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding, may declare such principal and accrued interest on the notes to be immediately due and payable.

#### **Guarantee of 10.50% senior notes due 2016 of JBS S.A.**

On August 4, 2006, JBS S.A. issued 10.50% senior notes due 2016, or the 2016 Notes, in an aggregate principal amount of \$300.0 million. Interest on the 2016 Notes accrues at a rate of 10.50% per annum and is payable semi-annually in arrears on February 4 and August 4 of each year, beginning on February 4, 2007. The principal amount of the 2016 Notes is payable in full on August 4, 2016.

*Guarantees.* The indenture governing the 2016 Notes requires any significant subsidiary (any subsidiary constituting at least 20% of JBS S.A.'s total assets or annual gross revenues, as shown on the latest financial statements of JBS S.A.) to guarantee all of JBS S.A.'s obligations under the 2016 Notes. The 2016 Notes are guaranteed by JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A., the selling stockholder in this offering and our direct controlling stockholder), our company and our subsidiaries, JBS USA Holdings, Inc., JBS USA, LLC and Swift Beef Company. Additional subsidiaries of JBS S.A. (including our subsidiaries) may be required to guarantee the 2016 Notes in the future.

**Covenants.** The indentures, for the 10.50% senior notes due 2016 contain customary negative covenants that limit the ability of JBS S.A. and its subsidiaries (including us) to, among other things:

- incur additional indebtedness;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to JBS S.A.'s shareholders;
- permit restrictions on dividends and other restricted payments by its subsidiaries;
- enter into related party transactions;
- enter into sale/leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

**Events of default.** The indentures also contain customary events of default, including for failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding, may declare such principal and accrued interest on the notes to be immediately due and payable.

#### ***Unsecured Australian revolving credit facility***

Our Australian subsidiary Swift Australia Pty Limited, entered into an Australian dollar denominated, or A\$120 million unsecured revolving credit facility on February 26, 2008 to fund working capital and letter of credit requirements. Under this facility, A\$80 million can be borrowed for cash needs, and A\$40 million is available to fund letters of credit. Borrowings are made at the cash advance rate (BBSY) plus a margin of 0.975% plus a commitment fee of 0.1%. This credit facility contains certain financial covenants which require JBS Holdco Australia Pty Ltd and its subsidiaries to maintain predetermined ratio levels related to interest coverage, debt coverage, tangible net worth and current assets to current liabilities. As of March 29, 2009, Swift Australia Pty Limited was in compliance with all covenants and had U.S.\$34.6 million outstanding. This facility will terminate on October 1, 2009. We intend to seek to refinance this facility. The lenders under this facility may terminate the facility if the ratings of JBS S.A. are downgraded.

#### ***Secured Australian credit facility***

Our Australian subsidiary Swift Australia (Southern) Pty Limited (formerly known as Tasman Group Services Pty Ltd A.C.N.), entered into an A\$80 million secured revolving credit facility on May 2, 2008. Under this facility, up to (1) A\$50 million can be borrowed to provide funding relating to the Tasman Acquisition, (2) A\$15 million may be used to provide working capital and to fund letters of credit, and (3) A\$15 million may be used to finance payroll and general expenses. This credit facility contains covenants that limit the borrower's ability to, among other things, repay loans, make redemptions of equity, create liens, raise any financial accommodation from any other party, merge with or acquire another company or entity and dispose of assets. The credit amount is secured by certain registered mortgages and a subordination agreement over intercompany loan providers. As of March 29, 2009, we were in compliance with all covenants and had U.S. \$36.8 million outstanding. This facility will terminate on October 1, 2009. We intend to seek to refinance this facility.

#### ***Cactus bonds***

On May 15, 2007, we entered into an Installment Bond Purchase Agreement with the city of Cactus, Texas. Under this agreement, we committed to purchase up to \$26.5 million of bonds from the city of Cactus, which are being issued to fund improvements to the city's sewer system, which is used by our beef processing plant located in Cactus, Texas. We will purchase the bonds in installments as improvements are completed through an anticipated date of June 2010. The interest rate on the bonds is six-month LIBOR plus 350 basis points. The bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption payments beginning on June 1, 2011. We have purchased \$12.0 million in bonds as of March 31, 2009 and expect to purchase the remaining \$14.5 million in 2009.



### **Related party debt**

As of March 31, 2009, we owed an aggregate of €658.6 million under various intercompany loans from JBS S.A., which were subsequently assigned to JBS HU Liquidity Management LLC (Hungary), a wholly owned, indirect subsidiary of JBS S.A. The proceeds of these intercompany loans were used to fund our operations, the Tasman Acquisition and the JBS Packerland Acquisition. On April 27, 2009, in connection with the issuance of the 11.625% senior unsecured notes due 2014 by our subsidiary JBS USA LLC, these intercompany loan agreements were consolidated into one loan agreement, the maturity dates of the principal of the intercompany loans were extended to April 18, 2019, and the interest rate was changed from approximately 6.5% to 12% per annum. The net proceeds of the offering of the 11.625% senior unsecured notes due 2014 (other than €100.0 million) were used to repay accrued interest and a portion of the principal on these intercompany loans. As of May 31, 2009, we owed an aggregate principal amount of €133.0 million under the consolidated intercompany loan agreement. In addition, we recently entered into an additional intercompany term loan agreement in the aggregate principal amount of €6.0 million on the same terms as the consolidated intercompany loan agreement.

### **Customer advance payment relating to raw material supply agreement**

On October 22, 2008, we received an advance cash payment of €175 million relating to a raw material supply agreement entered into on February 27, 2008 pursuant to which we granted a customer the exclusive right to collect a certain beef fabrication by-product from all of our U.S. beef plants for the term of the agreement. This customer advance payment is recorded as deferred revenue in our audited financial statements and is amortized as sales revenue as the agreed upon by-product is delivered to the customer over the term of the agreement. The customer advance payment is secured by a note agreement, which bears interest at two-month LIBOR plus 200 basis points and provides the lender with an option to convert the outstanding amount of the loan under the note agreement into our common stock upon the occurrence and continuance of any event of default under the note agreement.

### **Dividend restrictions**

Certain covenants of our debt agreements include restrictions on our ability to pay dividends. As of December 28, 2008 and March 29, 2009, we had €22.7 million and €17.7 million, respectively, of retained earnings available to pay dividends.

### **Covenant compliance**

#### **JBS S.A. pro forma net debt to EBITDA ratio**

The terms and conditions of (1) our 11.625% senior unsecured notes due 2014 and (2) JBS S.A.'s 10.50% senior notes due 2016 both include a covenant prohibiting JBS S.A. and its subsidiaries, including us, from incurring any debt (subject to certain exceptions) unless JBS S.A.'s pro forma net debt to EBITDA ratio at the date of such incurrence is less than 4.5 to 1.0.

The terms and conditions of both of these notes define:

- the Net Debt to EBITDA ratio as the ratio of JBS S.A.'s Net Debt to JBS S.A.'s EBITDA for the then most recently concluded period of four consecutive fiscal quarters, subject to adjustments for asset dispositions and investments made during the period;
- Net Debt at any time as the aggregate amount of debt of JBS S.A. and its subsidiaries (including us) less the sum of cash, cash equivalents and marketable securities recorded as current assets (except for any capital stock in any person); and
- EBITDA for any period as to JBS S.A. and its subsidiaries (on a consolidated basis) as
  - aggregate net income (or loss) *plus*
  - current and deferred income tax and social contribution; *minus*
  - non-operating income (expense), net; *plus*
  - equity in the earnings (loss) of subsidiary companies; *plus*
  - financial income (expenses), net; *plus*
  - any depreciation or amortization;

as each such item is reported on the most recent financial statements or financial information prepared in accordance with generally accepted accounting principles in Brazil.

JBS S.A. has informed us that it believes it will be able to comply with this financial ratio for the foreseeable future to the extent that it or any of its subsidiaries decides to incur debt.

### **JBS USA, LLC pro forma net debt to EBITDA ratio**

In addition, our 11.625% senior unsecured notes due 2014 include a covenant prohibiting our subsidiary, JBS USA, LLC and its subsidiaries that are guaranteeing the 11.625% senior unsecured notes due 2014 from incurring any debt or issuing any disqualified capital stock (subject to certain exceptions) unless JBS USA, LLC's pro forma net debt to EBITDA ratio at the date of such incurrence and the application of the proceeds therefrom, would be less than 3.0 to 1.0. The co-issuers of our 11.625% senior unsecured notes due 2014 were our wholly-owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc.

The calculation of the net debt to EBITDA ratio thereunder is calculated based on the net debt and EBITDA of JBS USA, LLC and its restricted subsidiaries, and not our company.

The terms and conditions of these notes define:

- the Net Debt to EBITDA ratio as of any date of determination (the "Calculation Date") the ratio of JBS USA, LLC's Net Debt as of the Calculation Date to consolidated EBITDA for JBS USA, LLC and its restricted subsidiaries for the period of the then most recently concluded period of four consecutive fiscal quarters, subject to adjustments for asset dispositions and investments made during the period;
- Net Debt at any time as the aggregate amount of debt of JBS USA, LLC and its restricted subsidiaries less the sum of cash, cash equivalents and marketable securities recorded as current assets (except for any capital stock in any person); *provided* that Net Debt shall include the aggregate principal amount of JBS S.A.'s 10.50% senior notes due 2016 and any other debt of JBS S.A. that may be guaranteed by JBS USA, LLC or its restricted subsidiaries; and
- consolidated EBITDA of JBS USA, LLC and its restricted subsidiaries for any period as
  - (1) consolidated net income for such period, subject to certain adjustments, *minus*
  - (2) the sum of:
    - (a) income tax credits;
    - (b) interest income;
    - (c) gain from extraordinary items;
    - (d) any aggregate net gain (but not any aggregate net loss) arising from the sale, exchange or other disposition of capital assets by JBS USA, LLC and its restricted subsidiaries (including any fixed assets, whether tangible or intangible, all inventory sold in conjunction with the disposition of fixed assets and all securities); and
    - (e) any other non-cash gains that have been added in determining consolidated net income,

in each case to the extent included in the calculation of consolidated net income of JBS USA, LLC in accordance with GAAP, but without duplication, *plus*

- (3) the sum of:
  - (a) any provision for income taxes;
  - (b) consolidated interest expense;
  - (c) loss from extraordinary items;
  - (d) depreciation and amortization;
  - (e) any aggregate net loss (but not any aggregate net gain) arising from the sale, exchange or other disposition of capital assets by JBS USA, LLC (including any fixed assets, whether tangible or intangible);

- (f) amortized debt discount;
- (g) the amount of any deduction to consolidated net income as the result of any grant to any members of the management of JBS USA, LLC or its restricted subsidiaries of any equity interests; and
- (h) any other non-cash losses that have been deducted in determining consolidated net income (other than non-cash losses related to write-downs or write-offs of accounts receivable or inventory);

in each case to the extent included in the calculation of consolidated net income of JBS USA, LLC in accordance with GAAP, but without duplication, and as further adjusted to exclude certain non-cash items and non-recurring items.

For purposes of this covenant, consolidated net income is adjusted to exclude, among other things, (1) income from restricted subsidiaries to the extent that the payment of dividends or similar distributions by the restricted subsidiaries is not permitted by law or any agreement to which the restricted subsidiaries are parties, (2) income of any entity in which JBS USA, LLC has a joint interest, except to the extent of the dividends or other distributions actually paid to JBS USA, LLC or one of its wholly owned restricted subsidiaries and (3) certain non-cash items and non-recurring items.

As mentioned above, the calculation of our net debt to EBITDA ratio is calculated based on the net debt and EBITDA of JBS USA, LLC and its restricted subsidiaries, and not our net debt and EBITDA. We had Adjusted EBITDA of \$537.7 million on a pro forma basis in the fiscal year ended December 28, 2008 and \$66.1 million in the fiscal quarter ended March 29, 2009. For these same periods, JBS USA, LLC and its restricted subsidiaries had Adjusted EBITDA of \$398.2 million and \$67.1 million, respectively. The main differences between our Adjusted EBITDA and JBS USA, LLC and its restricted subsidiaries' Adjusted EBITDA are that JBS USA, LLC's Adjusted EBITDA excludes (1) Five Rivers' consolidated net income because Five Rivers is currently an unrestricted subsidiary under the 11.625% senior unsecured notes due 2014 and (2) the payment by us (and not JBS USA, LLC) of a one-time breakage fee to the shareholders of National Beef totaling \$19.9 million as full and final settlement of any and all liabilities relating to the potential acquisition of National Beef in the first quarter ended March 29, 2009 that we (and not JBS USA, LLC) recorded as a non-recurring expense. For the Five Rivers' assets that we acquired, Five Rivers had consolidated pro forma net income of \$9.6 million for the period from January 1, 2008 through October 22, 2008 and \$2.9 million for the period from October 23, 2008 through December 28, 2008.

We had net debt of \$657.6 million on a pro forma basis as of December 28, 2008 and \$854.5 million on a pro forma basis as of March 29, 2009. We calculated pro forma net debt as of December 28, 2008 as pro forma total debt of \$910.0 million minus pro forma cash and cash equivalents of \$252.4 million and pro forma net debt as of March 29, 2009 as total debt of \$1,008.8 million minus cash and cash equivalents of \$154.3 million. For these same periods, JBS USA, LLC and its restricted subsidiaries had net debt of \$(35.1) million and \$161.8 million, respectively. JBS USA, LLC calculated net debt as of December 28, 2008 as total debt of \$219.7 million minus cash and cash equivalents of \$254.8 million and net debt as of March 29, 2009 as total debt of \$318.5 million minus cash and cash equivalents of \$156.7 million. The main differences between our net debt and the net debt of JBS USA, LLC and its restricted subsidiaries are that (1) JBS USA, LLC's net debt excludes Five Rivers' debt and cash because Five Rivers is an unrestricted subsidiary and (2) JBS USA, LLC's guarantee of JBS S.A.'s 10.50% senior notes due 2016 would also be included in JBS USA, LLC's net debt (and not in ours) for purposes of calculating its net debt to EBITDA ratio.

For the four fiscal quarters ended June 30, 2009, JBS USA, LLC had a net debt to EBITDA ratio of \_\_\_\_\_ to 1.00. We cannot assure you that JBS USA, LLC will not need to incur additional indebtedness at a time when its net debt to EBITDA ratio is equal to or greater than 3.0 to 1.0. JBS USA, LLC's compliance with this covenant could limit its flexibility in planning for, or reacting to changes in, our business by limiting the funds that we can seek to borrow or raise in the capital markets to pursue capital expenditures, acquisitions, our distribution strategy or other plans.

We have included this calculation of JBS USA, LLC's net debt, EBITDA and net debt to EBITDA ratio, as we believe that this ratio is important to investors, and the indenture governing our 11.625% senior unsecured notes due 2014 is a material debt agreement for us.

## Contractual obligations

The following table summarizes our contractual obligations as of December 28, 2008:

in millions	2009	2010	2011	2012	2013	After year 5	Total
<b>Contractual obligations:</b>							
Revolving credit facilities.....	□ 67.0	□	□ 114.7	□	□	□	□ 181.7
Related party debt.....	□	658.6	□	□	□	□	658.6
Deferred revenue .....	18.0	18.0	18.0	18.0	18.0	83.2	173.2
Interest(1).....	59.8	54.2	12.1	6.3	6.0	15.8	154.2
Capital lease obligations .....	3.2	3.0	2.6	2.3	2.4	13.2	26.7
Operating leases(2).....	17.4	13.4	11.0	4.9	4.1	5.1	55.9
Installment note payable .....	1.3	1.3	0.9	0.9	6.9	□	11.3
<b>Purchase obligations:</b>							
Livestock procurement(3).....	3,395.2	1,035.1	862.4	710.2	483.7	99.1	6,585.7
Cactus bonds(4).....	14.5	□	□	□	□	□	14.5
Other(5).....	□	□	□	□	□	16.2	16.2
<b>Total contractual obligations .....</b>	<b>\$ 3,576.4</b>	<b>\$ 1,783.6</b>	<b>\$ 1,021.7</b>	<b>\$ 742.6</b>	<b>\$ 521.1</b>	<b>\$ 232.6</b>	<b>\$ 7,878.0</b>

(1) Interest expense assumes the continuation of interest rates and outstanding borrowings under our credit facilities as of December 28, 2008.

(2) Excludes amounts associated with operating leases having remaining non-cancelable lease terms of one year or less.

(3) Represents hog and cattle purchase agreements with certain hog and cattle producers. The number of animals that we will be obligated to purchase is based on minimum quantity commitments to the extent the agreements contain those commitments, or management estimates based on past history for such hog and cattle purchases. The contracts are subject to market pricing at delivery. Due to the uncertainty of market prices at the time of future delivery we have estimated market prices based on futures contracts and applied those prices to all years. Cattle purchase agreements are short-term contracts with renewal options. Therefore, cattle purchase commitments have only been estimated through year one. See Note 13, "Commitments and contingencies" to our audited consolidated financial statements included in this prospectus.

(4) On May 15, 2007, we entered into an Installment Bond Purchase Agreement with the City of Cactus, Texas, or the City. Under this agreement, we committed to purchase up to □26.5 million of bonds from the City, which are being issued to fund improvements to its sewer system, which is used by our beef processing plant located in Cactus, Texas. We will purchase the bonds in installments as improvements are completed through an anticipated date of June 2010. The interest rate on the bonds is six-month LIBOR plus 350 basis points. The bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption payments beginning on June 1, 2011. We have purchased □12.0 million in bonds as of December 28, 2008 and expect to purchase the remaining □14.5 million in 2009.

(5) Includes certain obligations for capital expenditures and other insignificant purchase obligations.

The following table summarizes our contractual obligations, on a pro forma basis as of March 29, 2009, giving effect to the offering and sale of our 11.625□ senior unsecured notes due 2014 and the application of the proceeds therefrom as if they had occurred on March 29, 2009 (including the use of a portion of the proceeds of our 11.625□ senior unsecured notes due 2014 to repay □100.0 million of borrowings under our secured revolving credit facility):

in millions	2009	2010	2011	2012	2013	After year 5	Total
<b>Contractual obligations:</b>							
Revolving credit facilities.....	□ 71.4	□	□ 110.2	□	□	□	□ 181.6
11.625□ senior unsecured notes due 2014 .....	□	□	□	□	□	700.0	700.0
Related party debt.....	□	□	□	□	□	139.0	139.0
Deferred revenue .....	13.6	18.0	18.0	18.0	18.0	83.2	168.8
Interest(1).....	113.1	111.0	110.7	104.4	104.0	99.2	642.4
Capital lease obligations .....	2.3	3.0	2.7	2.2	2.4	13.4	26.0
Operating leases(2).....	13.1	13.8	11.4	5.1	4.4	5.4	53.2
Installment note payable .....	1.1	1.3	0.9	0.9	6.6	□	10.8
<b>Purchase obligations:</b>							
Livestock procurement(3).....	3,178.8	1,088.1	808.8	722.2	489.3	98.2	6,385.4
Cactus bonds(4).....	14.5	□	□	□	□	□	14.5
Other(5).....	□	□	□	□	□	16.2	16.2
<b>Total contractual obligations .....</b>	<b>\$ 3,407.9</b>	<b>\$ 1,235.2</b>	<b>\$ 1,062.7</b>	<b>\$ 852.8</b>	<b>\$ 624.7</b>	<b>\$ 1,154.6</b>	<b>\$ 8,337.9</b>

(1) Interest expense assumes the continuation of interest rates and outstanding borrowings under our credit facilities as of March 29, 2009.

(2) Excludes amounts associated with operating leases having remaining non-cancelable lease terms of one year or less.

- (3) Represents hog and cattle purchase agreements with certain hog and cattle producers. The number of animals that we will be obligated to purchase is based on minimum quantity commitments to the extent the agreements contain those commitments, or management estimates based on past history for such hog and cattle purchases. The contracts are subject to market pricing at delivery. Due to the uncertainty of market prices at the time of future delivery we have estimated market prices based on futures contracts and applied those prices to all years. Cattle purchase agreements are short-term contracts with renewal options. Therefore, cattle purchase commitments have only been estimated through year one. See Note 12, "Commitments and contingencies" to our unaudited consolidated financial statements included in this prospectus.
- (4) On May 15, 2007, we entered into an Installment Bond Purchase Agreement with the City of Cactus, Texas, or the City. Under this agreement, we committed to purchase up to \$26.5 million of bonds from the City, which are being issued to fund improvements to its sewer system which is utilized by our beef processing plant located in Cactus, Texas. We will purchase the bonds in installments as improvements are completed through an anticipated date of June 2010. The interest rate on the bonds is six-month LIBOR plus 350 basis points. The bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption beginning on June 1, 2011. We have purchased \$12.0 million in bonds as of December 28, 2008 and expect to purchase the remaining \$14.5 million in 2009.
- (5) Includes certain obligations for capital expenditures and other insignificant purchase obligations.

### Off-balance sheet arrangements

As of March 29, 2009, we did not have any significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

However, as of March 29, 2009, we did have the following guarantees and keepwell obligations that are not recorded on our balance sheet: (1) our guarantee of JBS S.A.'s 10.5% senior notes due 2016 described under "Liquidity and capital resources" External sources of liquidity and description of indebtedness" Guarantee of 10.5% senior notes due 2016 of JBS S.A. and (2) Five Rivers' obligation under a keepwell agreement to pay up to \$250.0 million of the obligations of JCF Oklahoma under JCF Oklahoma's credit facility described in "Certain relationships and related party transactions" Arrangements with JCF Oklahoma" Guarantee of JCF Oklahoma revolving credit facility.

### Quantitative and qualitative disclosures about market risk

Market risk relating to our operations results primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, we enter into various derivative transactions as described below. If a derivative instrument is accounted for as a hedge, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133(R)), depending on the nature of the hedge, changes in the fair value of the instrument either will be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or be recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value, as defined by SFAS No. 133(R), is recognized immediately. Additionally, we hold certain positions, primarily in grain and livestock futures, that either do not meet the criteria for hedge accounting or are not designated as hedges. These positions are marked to market, and the unrealized gains and losses are reported in earnings at each reporting date. Changes in market value of derivatives used in our risk management activities relating to forward sales contracts are recorded in net sales. Changes in market value of derivatives used in our risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales.

The sensitivity analyses presented below are the measures of potential losses of fair value resulting from hypothetical changes in market prices related to commodities. Sensitivity analyses do not consider the actions we may take to mitigate our exposure to changes, nor do they consider the effects such hypothetical adverse changes may have on overall economic activity. Actual changes in market prices may differ from hypothetical changes.

### Commodity risk

We utilize various raw materials in our operations, including cattle, hogs, and energy, such as natural gas, electricity and diesel fuel, which are all considered commodities. We consider these raw materials generally available from a number of different sources and believe we can obtain them to meet our requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond our control, such as economic and political conditions, supply and demand, weather, governmental regulation and other circumstances. Generally, we purchase derivatives in an attempt to mitigate price risk related to our anticipated consumption of commodity inputs for periods of up to 12 months. We may enter into longer-term derivatives on particular commodities if deemed appropriate. As of December 28, 2008 and March 29, 2009, we had derivative positions in place covering less than 1% and 2.5% of anticipated cattle needs and 11% and 14%, respectively, of anticipated hog needs, in each case through December 2009.

We use derivatives for the purpose of mitigating exposure to market risk, such as changes in commodity prices and foreign currency exchange rates. We use exchange-traded futures and options to hedge livestock commodities. The fair value of derivative assets is recognized within other current assets, while the fair value of derivative liabilities is recognized within accrued liabilities. The fair value of derivatives at December 28, 2008 and March 29, 2009 are as follows:

<b>in thousands</b>	<b>As of December 28, 2008</b>	<b>As of March 29, 2009</b>
<b>Assets:</b>		
Commodity derivatives .....	\$42,087	\$23,582
Foreign currency rate derivatives .....	12,002	14,463
<b>Total fair value, assets .....</b>	<b>\$54,089</b>	<b>\$38,045</b>
<b>Liabilities:</b>		
Commodity derivatives .....	\$16,392	\$7,056
Foreign currency rate derivatives .....	592	5,246
<b>Total fair value, liabilities .....</b>	<b>\$16,984</b>	<b>\$12,302</b>
Net commodity derivatives .....	\$25,695	\$16,526
Net foreign currency rate derivatives .....	11,410	9,217
<b>Total net fair value .....</b>	<b>\$37,105</b>	<b>\$25,743</b>

As of December 28, 2008 and March 29, 2009, the net deferred amount of derivative losses recognized in accumulated other comprehensive income was \$0.3 million and \$90,000, net of tax. We anticipate these amounts will be transferred out of accumulated other comprehensive income and recognized within earnings over the next 12 months.

#### Interest rate risk

As of December 28, 2008 and March 29, 2009, we had fixed-rate debt of \$19.0 million and \$17.8 million, respectively, with a weighted average interest rate of 8.4% for each period. We have exposure to changes in interest rates on this fixed-rate debt. Market risk for fixed-rate debt is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of our fixed-rate debt by approximately \$0.4 million at March 29, 2009 and \$0.4 million at December 28, 2008. The fair values of our debt were estimated based on quoted market prices and/or published market interest rates.

As of December 28, 2008 and March 29, 2009, we had variable rate debt of \$859.3 million and \$959.2 million, respectively, with a weighted average interest rate of 6.2% and 5.8%, respectively. A hypothetical 10% increase in interest rates effective at March 29, 2009, and December 28, 2008, would have increased interest expense by approximately \$5.6 million for the fiscal quarter ended March 29, 2009 and \$5.3 million for the fiscal year ended December 28, 2008.

#### Foreign currency risk

We have foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates primarily as a result of a U.S. dollar-denominated intercompany note between two of our subsidiaries located in Australia. The primary currency exchange rate to which we have exposure is the U.S. dollar to Australian dollar exchange rate due to: (1) our significant investment in our Australian subsidiaries and (2) sales denominated in currencies other than U.S. dollars. While we use foreign currency forward contracts to mitigate price risk on committed future deliveries, we have elected not to use foreign currency forward contracts to mitigate the risk related to our investment in Australia, primarily since the effect of these fluctuations is non-cash in nature and the purchase of forward contracts would have a cash cost. In addition, the definition of EBITDA used by our lending institutions eliminates foreign currency gains and losses prior to calculating covenant compliance. In the future we may elect to enter into forward contracts to mitigate this foreign currency risk.

## Sensitivity analysis

The following sensitivity analysis table estimates our exposure to changes in the fair value of commodity price derivatives and foreign currency exchange rate derivatives at December 28, 2008 and March 29, 2009. The sensitivity analysis reflects the impact of a hypothetical 10% adverse change in the fair value of applicable commodity prices and foreign exchange currency rates and excludes the underlying items that are being hedged, such as future sales commitments or future livestock commitments.

<b>in thousands</b>	<b>As of December 28, 2008</b>	<b>As of March 29, 2009</b>
<b>Fair value:</b>		
Commodity derivatives .....	\$25,695	\$16,526
Foreign currency rate derivatives .....	11,410	9,217
<b>Total .....</b>	<b>\$37,105</b>	<b>\$25,743</b>
<b>Estimated fair value volatility (-10%):</b>		
Commodity derivatives .....	\$17,680	\$11,607
Foreign currency rate derivatives .....	25,391	18,865
<b>Total .....</b>	<b>\$43,071</b>	<b>\$30,472</b>

# Business

## Overview

We are a global leader in beef and pork processing with approximately \$15.4 billion in net sales for the fiscal year ended December 28, 2008 on a pro forma basis. In terms of daily slaughtering capacity, we are among the leading beef and pork processors in the United States and we have been the number one processor of beef in Australia for the past 15 years. As a standalone company, we would be the largest beef processor in the world. We also own and operate the largest feedlot business in the United States. We process, prepare, package and deliver fresh, processed and value-added beef and pork products for sale to customers in over 60 countries on six continents. Our operations consist of supplying fresh meat products, processed meat products and value-added meat products. Fresh meat products include refrigerated beef and pork processed to standard industry specifications and sold primarily in boxed form. Our processed meat offerings, which include beef and pork products, are cut, ground and packaged in a customized manner for specific orders. Additionally, we process lamb and mutton products. Our value-added products include moisture-enhanced, seasoned, marinated and consumer-ready products. We also provide services to our customers designed to help them develop more comprehensive and profitable sales programs. Our customers are in the food service, international, further processor and retail distribution channels. We also produce and sell by-products that are derived from our meat processing operations, such as hides and variety meats, to customers in the clothing, pet food and automotive industries, among others.

Prior to 2002, our predecessor was owned and operated by a multinational food company and not operated as a raw material supplier for the processed portions of its business. From 2002 to 2007, we were owned by a private equity company that pursued a strategy of restricting our capital expenditures and maximizing dividends, including reducing the operations at our Greeley, Colorado plant to a single shift and selling five feedlot facilities, two cow slaughter facilities, and an Australian beef patty making and distribution facility.

We are a wholly owned indirect subsidiary of JBS S.A., the world's largest beef producer, which has a daily slaughtering capacity of 73,940 head of cattle. In the fiscal quarter ended March 29, 2009, we represented approximately 78% of JBS S.A.'s gross revenues. Over the past few years, JBS S.A. has acquired several U.S. and Australian beef and pork processing companies and slaughterhouses, which now comprise JBS USA Holdings, Inc. and its subsidiaries:

- on July 11, 2007, JBS S.A. acquired Swift Foods Company (our predecessor company, which was subsequently renamed JBS USA Holdings, Inc.), which we refer to as the Swift Acquisition;
- on May 2, 2008, we acquired substantially all of the assets of the Tasman Group Services, Pty. Ltd., or the Tasman Group, which we refer to as the Tasman Acquisition; and
- on October 23, 2008, we acquired Smithfield Beef Group, Inc. (which we subsequently renamed JBS Packerland), which included the 100% acquisition of Five Rivers. We refer to this transaction as the JBS Packerland Acquisition.

In the United States, we conduct our operations through eight beef processing facilities, three pork processing facilities, one lamb processing facility, one case-ready beef and pork facility, one hide tannery, seven leased regional distribution centers, two grease-producing facilities, and 11 feedlots operated by Five Rivers, which supply approximately 30% of our fed cattle needs. In Australia, we operate ten beef and small animals processing facilities, including the largest and what we believe is the most technologically advanced facility in the country, and five feedlots which supply approximately 18% of our fed cattle needs. Our small animals processing facilities in Australia process hogs, lamb and sheep, or smalls. Our Australian facilities are strategically located to access raw materials in a cost effective manner and to service our global customer base. We have the capacity to process approximately 28,600 cattle, 48,500 hogs and 4,500 lambs daily in the United States and 8,690 cattle and 15,000 smalls daily in Australia based on our facilities' existing configurations.

Our business operations are organized into two segments:

- our Beef segment, through which we conduct our domestic beef processing business, including the beef operations we acquired in the JBS Packerland Acquisition, and our international beef, lamb and sheep processing businesses that we acquired in the Tasman Acquisition; and
- our Pork segment, through which we conduct our domestic pork and lamb processing business.

We had consolidated net sales of \$15.4 billion on a pro forma basis in the fiscal year ended December 28, 2008, and we had consolidated net sales of \$3.2 billion in the fiscal quarter ended March 29, 2009. In the same periods, we had gross profit of \$608.0 million on a pro forma basis and \$73.0 million, respectively, and Adjusted EBITDA of \$531.8 million on a pro forma basis and \$66.1 million, respectively. Our net income for the fiscal year ended December 28, 2008 was \$192.1 million on a pro forma basis and \$2.3 million for the fiscal quarter ended March 29, 2009. Our Beef and Pork segments represented 84% and 16%, respectively, of our net sales on a pro forma basis during the fiscal year ended December 28, 2008, and 84% and 16%, respectively, of our net sales during the fiscal quarter ended March 29, 2009.



## **Industry overview**

### **Beef**

#### ***United States***

Beef products are second to chicken as the largest source of meat protein in the United States. The United States has the largest grain-fed cattle industry in the world and is the world's largest producer of beef, which is primarily high-quality grain-fed beef for domestic and export use. The domestic beef industry is characterized by daily price changes based on seasonal consumption patterns and overall supply and demand for beef and other proteins in the United States and abroad. Cattle prices vary over time and are impacted by inventory levels, the production cycle, weather and feed prices, among other factors.

Beef processors include vertically integrated companies, who own and raise cattle on feed for use in their processing facilities, and pure processors, who do not own cattle on feed. Vertically integrated beef processors can be subjected to significant working capital demands, since cattle typically feed in the yards for 90-180 days without any revenue generation until processed. Additionally, as cattle on feed consume feed with a replacement price that is subject to market changes, vertically integrated beef processors have direct financial exposure to the volatility in corn and other feedstock prices. Pure U.S. beef processors generally purchase cattle in the spot market or pursuant to market-priced supply arrangements from feedlot operators, process the cattle in their own facilities and sell the beef at spot prices. Cattle are usually purchased at market prices and held for less than a day before processing, thus such processors are not exposed to changing market prices over as great a time span as vertically integrated beef processors. Pure beef processors are primarily "spread" operators, and their operating profit is largely determined by plant operating efficiency rather than by fluctuations in prices of cattle and beef.

During the past few decades, consumer demand for beef products in the United States has been in line with population growth, which is the primary driver of aggregate demand. Export demand has fluctuated widely due to the closing of certain international markets following the discovery of isolated cases of BSE (also commonly referred to as mad cow disease), in 2003 and 2004, and the sporadic re-opening of such markets. We believe that consumer demand for U.S. exports in developing countries is driven by population growth compounded by economic growth. As consumers' economic circumstances improve, they increasingly shift their diets to protein. Industry-wide export sales have been ramping up from 2004 through mid-2009, trending toward pre-2003 levels.

Between 2006 and January 2008, our largest U.S. beef competitor eliminated two million head per year of slaughter capacity in four plants. This represented a reduction of nearly 7% of total U.S. industry-wide capacity and has helped improve the supply-demand balance of beef in the U.S. and export markets.

#### ***Australia***

Australia has traditionally been a supplier of grass-fed beef. Grass is a much cheaper feed source than grain. With the vast amount of land in Australia available for cattle raising and feeding, grass is the predominant feeding method. Australia also has a grain-fed beef cattle sector which primarily supplies processed cattle for export to Japan and South Korea and to the domestic market. Grain-fed cattle accounted for 27% of the adult cattle slaughter in 2008, representing 34% of total beef production in Australia. The majority of cattle slaughtered in Australia are range or grass-fed and not finished in the feedlots. Australia has been one of the leading beef export countries for more than a decade. We believe that approximately 75% of exports have historically been sold to the United States, Japan and South Korea, but Australian beef has been increasingly exported to Russia, Taiwan, Mexico, Chile and the United Arab Emirates, among other countries. Although Australian meat packers, including our Australian operations, benefited from the closure of many markets to North American beef as a result of BSE detections in North American cattle, Australian exports have remained strong following the reopening of international markets to North American beef.

#### ***Global exports***

We sell our products in over 60 countries on six continents, and exports accounted for approximately 24% of our sales in 2008 on a pro forma basis and 21% of our sales for the fiscal quarter ended March 29, 2009. The international beef market is divided into two blocks based on factors that include common sanitary criteria, such as restrictions on imports of fresh beef from countries that permit foot-and-mouth disease, or FMD, vaccination programs or beef treated with growth hormones.

The United States has been an FMD-free country since the eradication of the disease, and it does not implement vaccination programs. However, the United States treats most of their cattle with growth hormones, and, accordingly, the European Union and several other countries have banned imports of beef treated with growth hormones from the United States.

In contrast, Brazil and Argentina have prohibited the use of growth hormones on their cattle. JBS S.A. is a large exporter of beef to the European Union.

We believe that our U.S. export operations of fresh beef today do not directly compete with our parent company's Brazilian and Argentine export operations of fresh beef in our main export destinations. Consequently, we do not have formal arrangements with JBS S.A. to coordinate our exports in our export markets. However, to the extent that sanitary restrictions change in the future, we could become direct competitors of our parent company in certain export markets.

We do compete with JBS S.A. to a limited degree, however, for example, to the extent that our Australian operations export to the European Union, the Middle East and Southeast Asia, which are also export markets for JBS S.A. We do not believe our Australian business' competition with JBS S.A. in these markets has a material adverse effect on our current business.

## **Pork**

Pork products are the most widely consumed meat in the world. Pork is the third largest source of meat protein in the United States, behind chicken and beef. The United States, which is widely regarded as a world leader in food safety standards, is the third largest producer worldwide, behind China and the European Union, and one of the largest exporters of pork products.

The domestic pork industry is characterized by daily price changes based on seasonal consumption patterns and overall supply-demand for pork and other meats in the United States and abroad. Generally, domestic and worldwide consumer demand for pork products drive pork processors' long-term demand for hogs. To operate profitably, hog processors seek to acquire or raise hogs at the lowest possible costs and minimize processing costs by maximizing plant operating rates. Hog prices vary over time and are impacted by inventory levels, the production cycle, weather and feed prices, among other factors.

Pork processors include vertically integrated companies, which own and raise hogs on feed for use in their processing facilities, and pure processors, who do not own hogs on feed. Vertically integrated pork processors can be subjected to significant financial impact from working capital demands, since hogs feed in the yards for approximately 180 days without revenue generation until processed. Additionally, since hogs on feed consume feed with a replacement price that is subject to market changes, vertically integrated pork processors have direct financial exposure to the volatility in corn and other feedstock prices. Pure processors generally purchase finished hogs under long-term supply contracts at prevailing market prices, process the hogs in their own facilities and sell the finished products at spot prices. Finished hogs are typically purchased at market prices and held for less than one day before processing, thus pure processors are not exposed to changing market prices over as great a time span as vertically integrated processors. Pure pork processors are primarily "spread" operators, and their operating profit is largely determined by plant operating efficiency and not by fluctuations in prices of hogs and pork.

While affected by seasonal consumption patterns, demand for pork has remained consistently strong. During the past few decades, population growth has been the primary driver of increased aggregate pork product demand in the United States. We believe that consumer demand for U.S. exports in developing countries is driven by population growth compounded by economic growth: as consumers' economic circumstances improve, they increasingly shift their diets to protein. To satisfy the growing global demand, U.S. pork exports have more than tripled in the past decade. The top three leading export markets for U.S. pork and pork variety meats are Japan, Mexico and Canada.

## **Competitive strengths**

We are well positioned as a leading meat processor in the U.S. and Australia. We have implemented significant operational improvements over the last several years, resulting in increases in throughput, additional value-added products, improved food safety and industry-leading worker safety. Our competitive strengths include:

### **Scale and leading market positions in beef and pork industries**

As a standalone company we would be the largest beef processor in the world. In terms of daily slaughtering capacity, we are among the leading beef and pork processors in the United States and we have been the number one processor of beef in Australia for the past 15 years. With a slaughtering capacity of 37,290 heads per day in beef, 48,500 heads per day in hogs and over 19,500 heads per day in smalls, our scale provides us with operational flexibility to:

- source our products based on the most favorable conditions of input costs,
- diversify our operations to minimize sanitary risk, and
- attain proximity to our raw materials and end customers given our geographical reach, saving freight and storage costs.

During the past few decades, consumer demand for beef and pork products in the United States has been increasing primarily as a result of population growth. Global protein demand has remained strong due to continued population growth and economic growth in developing countries. Despite the current economic recession, we believe protein demand will continue to increase in the long-term in conjunction with rising living standards and a growing middle class in developing countries. As part of JBS S.A., the world's leading beef producer, and given the industry's significant barriers to entry, we believe we are well-positioned to serve this growing global demand.

### **Diversified business model with international reach**

Our business is well diversified across proteins and all major distribution channels, as well as geographically with respect to production and distribution.

- *Diversified protein offerings:* We sell beef, pork and lamb products. Selling multiple proteins offers us the opportunity to cross-sell to our customers and to diversify typical industry risks such as industry cycles, the impact of species-based diseases and changes in consumer protein preferences. As a result of our multiple proteins, our businesses, when taken as a whole, are less likely to be severely impacted by issues affecting any one protein. Additionally, our JBS Packerland beef processing facilities are engineered to provide us with the flexibility to process a variety of cattle, which allows further diversification of our beef product offerings. For example, our JBS Packerland facilities are engineered to process both cattle raised for beef production and cattle bred for dairy production. This flexibility enables us to shift our operations on a daily basis between beef and dairy cattle depending on market availability, seasonal demand and relative margin attractiveness, setting us apart from many beef processing facilities in the United States.
- *Sales and distribution channel diversification:* We benefit from our diversified sales and distribution channels, which include national and regional retailers (including supermarket chains, independent grocers, club stores and wholesale distributors), further processors (including those that make bacon, sausage and deli and luncheon meats), international markets and the food service industry (including food service distributors, which service restaurant and hotel chains and other institutional customers). We sell our products to over 6,000 customers worldwide with no customer accounting for more than 4.5% of our net sales. This reduces our dependence on any market or customer and provides multiple channels for potential growth. In the retail segment, we further benefit from a variety of widely recognized brands, including *Swift*, *Swift Premium*, *Swift Angus Select*, *Swift Premium Black Angus*, *Miller Blue Ribbon Beef* and *G.F. Swift 1855* among others. We also manufacture products for some of our main customers' private label brands.
- *Geographic diversification:* We sell our products in over 60 countries on six continents. During fiscal 2008, on a pro forma basis, and the fiscal quarter ended March 29, 2009, we had international sales of \$3.8 billion and \$0.7 billion, respectively. Overall, exports accounted for approximately 24% of our sales in 2008 on a pro forma basis and 21% of our sales for the fiscal quarter ended March 29, 2009. Exports are an important part of our strategy and a competitive advantage. In fiscal 2008, we supplied Japan and South Korea with 36% and 47% of their total beef imports, respectively, according to Meat & Livestock Australia Limited. We believe we were the largest supplier of beef imported into Japan and South Korea in 2008. Our imports of beef to the United States from Australia totaled 32% of total Australian beef imports to the United States during fiscal 2008. Our geographic diversification enables us to reduce exposure to any one market and concurrently have access to all export markets. Additionally, having access to international markets allows us to potentially generate higher returns as many of our export products, such as tongue, heart, kidney and other variety meats, garner higher demand and pricing in foreign markets, particularly in Asia.

Our processing platforms in the United States and Australia, which are two major beef producing countries, provide us with enough geographic diversification and operating flexibility to satisfy demand depending on market conditions and sanitary restrictions. For example, our facilities in Dinmore, Beef City, Brooklyn and Longford, Australia accommodate non-hormone-treated fed cattle allowing us to market our products to the European Union (which prohibits imports of hormone-treated products). Accordingly, each of these facilities is eligible to ship to the European Union. We also benefit from greater international market access through our Worthington pork plant, which is one of only three facilities in the United States certified for export to the European Union. Additionally, our JBS Packerland facilities are located near major metropolitan areas, resulting in lower freight costs relative to cattle processing facilities in more rural locations.

While the closure of foreign markets to U.S. beef in 2003 negatively impacted the U.S. beef industry, our Australian beef operation retained access to those markets and benefited from reduced competition. Furthermore, we have a U.S. sales office which annually sources over \$160 million of meat products from our Australian facilities into the U.S. market products that provide U.S. customers, particularly in the food service and further processing channels, with a source of lean protein.

## **World class operations**

We believe our operations are among the most efficient in the industry. We operate three of the six highest-throughput beef facilities in the United States. Furthermore, we continuously focus on improving our operating efficiencies. We have developed a program to improve the coordination of our planning, forecasting, scheduling, procurement and manufacturing functions to drive performance in the supply chain. Our efforts in 2008 were focused on increasing beef yields, reducing operational costs and lowering overhead. One of the key initiatives in delivering on this strategy was returning our Greeley, Colorado processing facility to its originally designed capacity as a two-shift operation. Producing more volume in the same length of time reduces our cost per pound. As a measure of our progress, excluding the JBS Packerland Acquisition and the Tasman Acquisition, during the fiscal year ended December 28, 2008, our Beef and Pork segments demonstrated an 8.5% and 3.8% increase in throughput, respectively, compared to the combined fiscal year ended December 30, 2007. As a result, we remain focused on leveraging our fixed cost base to improve our operating margins.

## **Strong balance sheet and limited derivative exposure relative to our peers**

We have lower leverage than certain of our competitors. Moreover, since we are not vertically integrated in our U.S. operations, we are not significantly exposed to commodity hedging losses. We believe that our business and capital structure provides us with flexibility to respond to market conditions and to capitalize on business opportunities, particularly in the current credit-constrained environment.

## **Established customer relationships**

We have developed long-standing relationships with numerous well-established, global customers, many of whom have been doing business with us for more than 20 years. We serve many of the largest food service distributors, quick-service restaurants and retail chains in the United States. Additionally, we are focused on developing close, mutually beneficial relationships with our customers, who we believe view us as a long-term strategic partner and consider us an extended part of their operations. We believe that the high-quality long-standing relationships we have developed provide us with revenue stability and forecasting transparency.

## **Proven management team and high performance work force**

We have a proven senior management team whose experience in the protein industry has spanned numerous market cycles. Since the Swift Acquisition, we have simplified our management structure through headcount reduction and streamlined decision-making processes, effectively empowering our employees. We also benefit from management ideas, best practices, and talent shared with the seasoned management team at our parent company, who has over 50 years of experience operating beef processing facilities in Brazil. Members of JBS S.A.'s South American management team have been appointed to management positions in our United States and Australian operations. In addition, members of our Australian management team have been appointed to management positions in the United States, and vice-versa. Moreover, our management and that of our parent company have significant experience in acquiring and successfully integrating operations as evidenced by the more than 30 acquisitions made by JBS S.A. in the last 15 years, and more recently the integration of the JBS Packerland Acquisition and the Tasman Acquisition by us.

## **Our strategy**

Prior to 2002, our predecessor was owned and operated by a multinational food company. From 2002 to 2007, our predecessor was owned by a private equity company. Since the Swift Acquisition in July 2007, we have significantly changed our business strategy. Our current strategy is to continue to grow our business's revenues and profitability through the following strategic initiatives:

### **Continuously improve profitability through process optimization**

We continue to focus on enhancing our production yields and operational abilities and improving our information technology systems, with a view toward reducing our operating costs and improving throughput yields. Our initiatives in 2008 geared towards cost reductions led to approximately \$90 million in cost savings as compared to the fiscal year ended December 30, 2007. These cost reductions included renegotiating vendor contracts, insourcing of contract services previously outsourced and plant cost initiatives. We expect to further improve our operating performance by adopting best practices and leveraging additional operating expertise that we have access to as a member of the JBS S.A. group. Separately, we have been able to reduce operating costs by, among other measures, eliminating our reliance on third-party consultants and performing certain services in-house that were formerly outsourced at a premium. We have decreased our selling, general and administrative expenses by eliminating multiple layers of management positions and by requiring our service providers to participate in competitive bidding processes. As a measure of this progress, we have reduced annual selling, general and administrative expenses by over \$24.5 million, or 20.7%, for the fiscal year ended December 28, 2008, and in 2008 ranked as having the lowest ratio of selling, general and administrative expense to net sales among publicly traded protein companies in the United States. In addition to contract renegotiations and management efficiencies, operating efficiencies have led to annual incremental cost savings and margin improvements of approximately \$115 million for the fiscal year ended December 28, 2008. These operating efficiencies include adding a second shift at our Greeley plant, our yield improvement projects, including introduction of a pork casing sorting system (a margin enhancement strategy brought to the United States by JBS S.A.) in all of our U.S. pork plants, improved deboning training and cutting techniques on the fabrication floor and increased value-added production.

### **Continue to successfully integrate recent acquisitions and selectively pursue additional value-enhancing growth opportunities**

We have a proven track record of successfully acquiring and integrating companies, resulting in production and operating synergies. In 2008, we increased production through the Tasman Acquisition and the JBS Packerland Acquisition. These acquisitions have increased our daily cattle processing capacity from approximately 26,500 to 37,290 cattle. Additionally, as a result of the Tasman Acquisition, we added the ability to process 15,000 smalls per day in Australia. The Tasman Group is currently fully integrated with our legacy northern Australia operations in livestock procurement and sales. We expect to complete full integration of all information technology systems by the end of 2009. Similarly, JBS Packerland is fully integrated with respect to our customer credit, legal, treasury, financial reporting, insurance procurement and tax functions and certain employee benefit plans. We have identified and captured shared purchasing opportunities in certain packaging areas and continue to identify additional opportunities as contracts expire. We intend to complete our operational and financial information technology integration of JBS Packerland by September 2009. We will continue to work to maximize potential synergies from these acquisitions. Additionally, we intend to continue to selectively pursue additional value-enhancing growth opportunities as they arise.

### **Increase sales and enhance margins by significantly expanding our direct distribution network**

Since the Swift Acquisition, we have built a leading global production platform. Capitalizing on our production platform, we are now pursuing a global direct distribution strategy that will enable us to improve our ability to service current customers and allow us the opportunity to directly service new customers, primarily in the food service and retail channels. Our historical sales strategy has relied upon the use of third-party distributors who purchase our product and resell it to end-user customers at higher prices, retaining the incremental margin for their own benefit. We intend to shift a significant part of our sales efforts into direct sales to end-user customers in order to capture this incremental margin. This is consistent with our approach of in-sourcing activities previously outsourced in order to eliminate margin leakage to third parties. Direct distribution will include regional distribution centers, portion control fabrication, or "cutting room" facilities (taking primal cuts which we would have sold only as whole muscle cuts to third parties and fabricating them into individual serving chops or steaks), and direct sales and shipment of products to individual end-user customers by our sales personnel using our own delivery vehicles. This direct distribution strategy will require us to substantially expand our distribution network and sales force domestically and internationally by both acquisitions and greenfield investments. During the next five years, we intend to make substantial investments, including with a portion of the net proceeds of this offering, in order to significantly expand our direct distribution network. Ultimately, we believe that our investment in this direct distribution strategy will allow us to capture incremental sales and operating margin opportunities.

## **Increase processed and value-added offerings**

Historically, we have realized greater margins by offering value-added products and services to our customers. These offerings reduce their costs and help stimulate consumer demand. Examples of our value-added product and service offerings include additional processing to create sliced, cubed and tenderized products and consumer-ready chops and steaks. Similarly we also provide marinated and seasoned meats. These services help reduce labor costs for our food service customers and are examples of our focus on providing our customers with solutions to increase their beef and pork sales.

We believe our retail and food service customers will continue to value more convenient processed products from us. We currently operate 20 plants that produce beef and pork products that are cut, ground and packaged in a customized manner for specific orders that are primarily sold through the food service and retail distribution channels. We intend to expand our processed offerings through line expansions, acquisitions and/or greenfield investments. Increasing our value-added offerings is not limited to growth in processing capabilities, as our Five Rivers operations provide us the ability to design feeding programs that allow us to consistently deliver products that meet the exact specifications desired by our customers. We believe that increased value-added capabilities will drive margin improvement and increase the value we provide to customers.

## **Promote innovation across the value chain**

We believe we can increase our profitability by developing and implementing innovative process and product improvements across the value chain. Our innovations include implementing a casing sorting system utilized in Brazil which enables the sorting of hog intestines (casings) for sale to end-users from all of our U.S. pork processing facilities, resulting in significantly improved margins. Additionally, we have developed and implemented energy conversion and recovery processes including real-time processes by which byproducts of purchased natural gas or grease produced in our rendering operations are converted into useable fuels and a methane recovery process resulting in useable methane gas that is subsequently resold in North American pipelines. We have also instituted Halal processing capabilities in our Australian operations, providing us with the opportunity to expand our exports to Muslim customers located in the Middle East, which we believe sets us apart from our competitors in Australia. We will continue to seek to develop innovative process and product improvements across the value chain.

## **Maintain leadership in food and employee safety**

We prioritize our food and employee safety objectives in order to accomplish two principal goals. First, we focus on maintaining a high standard of food safety in order to ensure the quality of our products and attempt to avoid the potential adverse market reaction that is associated with recalls that occur from time to time in the meat processing industry. Second, we strive to continuously improve our employee safety in order to increase the efficiency of our facilities and reduce our operating costs. Since January 2003, we have reduced the number of lost-time injury events by approximately 50% at our beef processing facilities and by approximately 45% at our pork processing facilities through design and implementation of a comprehensive multi-faceted employee safety and injury prevention program.

## **Description of business segments**

### **Beef segment**

#### ***Products, sales and marketing***

##### *United States*

The majority of our beef revenues in the U.S. are generated from the sale of fresh beef, which includes chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef and other products. In addition, we sell beef by-products to the variety meat, feed processing, fertilizer, and pet food industries. Cattle hides are sold for both domestic and international use, primarily to the clothing and automotive industries. We market products under several brand names, including "Swift Premium, Swift Angus Select, Swift Premium Black Angus, Miller Blue Ribbon Beef and G.F. Swift 1855." Our hallmark brand, *Swift*, was founded in 1855 and we believe it is synonymous with our industry leadership in innovation and food quality. We believe that our brands, marketed primarily at the wholesale level, provide a platform for further growth and expansion of our value-added and premium program product lines.

We market our beef products through several channels including:

- national and regional retailers including supermarket chains, independent grocers, club stores and wholesale distributors;

- further processors who use our beef products as a food ingredient for prepared meals, raw materials for hamburger, and by-products for pharmaceutical and leather production;
- the food service industry, including food service distributors, which service restaurant and hotel chains and other institutional customers; and
- international markets, including Japan, Mexico, South Korea, Canada, and China among others, many of which have reopened to U.S. beef following the 2003 BSE outbreak, as well as other smaller foreign markets, some of which are limited to boxed beef products from cattle younger than 30 months of age.

Our largest distribution channel is retail. We have increased sales to the international channels by approximately 139□ from 176 million pounds in 2005 to 420 million pounds in 2008, trending toward pre-BSE levels, which were 456 million pounds in 2003. We intend to continue to focus on increasing our sales in the food service and international distribution channels, in particular, quick-service restaurants and their suppliers, which we believe are likely to continue to be profitable and growing over time.

Total net sales contribution by channel is:

	Fiscal year ended			Fiscal quarter ended
	2006	2007	2008	March 29, 2009
Retail .....	48□	47□	48□	54□
Further processors .....	23	23	26	23
Food service.....	22	21	14	14
International.....	7	9	12	9
Total .....	100□	100□	100□	100□

#### *Australia*

The majority of our beef revenues in Australia are generated from the sale of fresh beef, which includes chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef and other products. We also produce value-added meat products, including toppings for pizza. Approximately 79□ of the beef products sold by us are derived from grass-fed cattle. The remainder of our beef products is derived from grain-fed animals that are sold primarily to Japan. Grain-fed cattle provide higher quality meat, which commands a premium price. Our Beef segment also includes our lamb and sheep operations in Australia.

Our Australian operations currently generate approximately 89□ of total net sales as exports to foreign countries, including Japan, our largest export market, as well as the United States. Australia's sales to export markets have continued to benefit from the 2003 North American BSE incident, which had closed key Asian markets to the import of U.S. beef. Since 2003, these market closings increased the marketability of our Australian beef into those markets as Australia had no similar import restrictions on its production.

#### *Global exports*

We sell our products in over 60 countries on six continents. Overall, exports accounted for approximately 24□ of our sales in 2008 on a pro forma basis and 21□ of our sales for the fiscal quarter ended March 29, 2009. The international beef market is divided between the Pacific Block (which includes the United States, Japan, Canada, Mexico and South Korea) and the Atlantic Block (Europe, Africa, the Middle East and South America). This division reflects not only historical and geographical ties but also certain common sanitary criteria.

The Pacific Block prohibits imports of fresh beef from countries or regions where there is still a risk of new outbreaks of foot-and-mouth disease, or FMD, and from countries or regions that are FMD-free but implement FMD vaccination programs. However, the Pacific Block permits imports of processed beef (including cooked and pre-cooked products) from these countries.

Most countries of the Atlantic Block permit imports of fresh beef from FMD-free countries that implement FMD vaccination programs. They also recognize that FMD can be eradicated on a regional (as opposed to national) basis in certain countries, including Brazil, which has areas that are FMD-free and have vaccination programs, qualifying them to export fresh beef. Under this regionalization concept, many beef producing regions in Brazil are thus qualified to export fresh beef to countries in the Atlantic Block. Notwithstanding the foregoing, most countries in the Atlantic Block impose import restrictions on beef treated with growth hormones, citing health concerns. Brazil and Argentina have prohibited the use of growth hormones on their cattle.

The United States has been an FMD-free country since the eradication of the disease, and it does not implement vaccination programs. However, the United States treats most of their cattle with growth hormones, and, accordingly, the European Union and several other countries have banned imports of beef treated with growth hormones from the United States.

Australia is an FMD-free country and does not implement vaccination programs against the disease. It also does not use growth hormones in a small part of its cattle herd and is therefore able to export to any country in the world.

As a result of this division and the sanitary restrictions between the Pacific Block and the Atlantic Block, we believe that our U.S. export operations of fresh beef today do not directly compete with our parent company's Brazilian and Argentine export operations of fresh beef in our main export destinations. Although JBS S.A. is a large exporter of beef to the European Union, for example, we do not have relevant export volume to the European Union because of its restrictions on beef treated with growth hormones. Consequently, we do not have formal arrangements with JBS S.A. to coordinate our exports in our export markets. However, to the extent that sanitary restrictions change in the future, we could become direct competitors of our parent company in certain export markets.

We do compete with JBS S.A. to a limited degree, however, for example, to the extent that our Australian operations export to the European Union, the Middle East and Southeast Asia, which are also export markets for JBS S.A. We do not believe our Australian business' competition with JBS S.A. in these markets has a material adverse effect on our current business.

### ***Raw material and feedlot operations***

#### *United States*

The primary raw material for our U.S. processing facilities is live cattle. All of our U.S. cattle procurement process is centralized at our headquarters in Greeley, Colorado, except for our JBS Packerland procurement process, which is centralized in Green Bay, Wisconsin. We require all of our cattle suppliers to document the quality of their feedlot operations, verify that the use of antibiotics and agricultural chemicals follow the manufacturer's intended standards and confirm that feed containing animal based protein products, which have been associated with outbreaks of BSE, has not been used. We have in excess of 3,000 cattle suppliers.

We secure approximately 29% of our annual cattle needs under forward purchase arrangements and purchase our remaining needs on the spot market. These forward purchase contracts are not fixed price contracts but rather they are priced at market upon delivery, thus generally minimizing our exposure to price volatility before delivery. On a pro forma basis, we will purchase approximately 24% of our U.S. cattle needs under an arrangement whereby we are entitled to a portion of the seller's gains, and are obligated to reimburse the seller for a portion of its losses, in its sale of cattle to us. See "Certain relationships and related party transactions" Arrangements with JBF Oklahoma Cattle purchase and sale agreement.

Five Rivers operates 11 cattle feedlots with a one-time feeding capacity of 820,000 cattle, located in Colorado, Idaho, Kansas, Oklahoma and Texas, adjacent to our existing Beef segment slaughter facilities. Almost 1.5 million head of cattle were fattened in these feedlots in 2008 and approximately 334 thousand head of cattle during the fiscal quarter ended March 29, 2009. Five Rivers does not own cattle and simply operates its feedlots and charges beef companies (including us) to feed and care for their cattle. Five Rivers supplies us with approximately 30% of our cattle needs and is obligated to sell to us, on an annual basis, a minimum of 500,000 cattle at market prices upon delivery.

Historically, cattle prices have been subject to substantial fluctuations. Cattle supplies and prices are affected by factors such as corn and soybean meal prices, weather and farmers' access to capital. JBS Packerland's four processing plants purchase lean Holstein steers and cows and other cattle primarily from feedlots, auction barns, direct contract relationships with suppliers in close proximity to processing plants and from its existing cattle feeding operations. The close proximity of these plants to most of their suppliers reduces transportation costs, shrinkage and bruising of livestock in transit.



Vertically integrated beef processors, which own cattle on feed, can be subject to significant financial impact in terms of working capital utilization, since cattle on feed eat in the yards for 90-180 days and do not generate revenue until slaughtered. Since cattle on feed consume feed with a replacement price that is subject to market changes, vertically integrated beef processors have direct financial exposure to the volatility in corn and other feedstock prices. We do not own cattle on feed, and we generally purchase cattle in the spot market or pursuant to market-priced supply arrangements from feedlot operators, and, except as described below, typically hold cattle for less than one day before processing. After processing, we sell the beef at spot prices. Because we generally buy cattle at market prices and sell the finished beef product at market prices with just a short time between the purchase and sale, we are not exposed to changing market prices over as great a span of time as vertically integrated processors. As such we are primarily a "spread" operator, and our operating profit is largely determined by plant operating efficiency and not by fluctuations in prices of cattle and beef.

### *Australia*

The primary raw materials we use in our Australian processing facilities are live cattle, lamb and sheep. Our cattle procurement function is focused on efficiently sourcing both grass-fed cattle and feeder cattle for our grain-fed business. Grass-fed cattle are primarily sourced from third-party suppliers with specific weight and grade characteristics. This process helps ensure that the cattle we source meet our future order requirements. The majority of grain-fed cattle are sourced from company-owned feedlot operations.

We operate five feedlots that provide grain-fed cattle exclusively for our processing operations in Australia. We source feeder cattle from livestock producers in Australia. On average, cattle remain in our feedlots for approximately 140 days before they are transferred to our processing operations. Our feedlots produce approximately 288,000 cattle per year for processing. Our Australian feedlots operate essentially in the same manner as retained ownership feedlots in the United States, meaning that we own the cattle and therefore carry the risk on the cattle. For a large proportion of these cattle, we know the eventual customers and their product requirements based on our close relationship with these customers and their purchasing history. Feed rations are determined based on scientific analysis. It is worth highlighting the distinction between retained ownership feedlots and custom feedlots, like our U.S. feedlots. In custom feedlots the animals are sold by the feedlot to beef processors on behalf of the livestock owner and the livestock owner's proceeds are paid to the livestock owner after the feedlot has deducted the yardage cost for fattening the animal and delivering the fattened animal to the meat processor. The distinction is important since in custom feedlots the livestock owner is at risk for the ultimate sale of the animal at completion, whereas in retained ownership feedlots the feedlot carries the risk of holding the cattle until they are sold.

### **Processing facilities**

#### *United States*

Our beef operations in the United States consist of eight fed cattle facilities. Steers and heifers raised on concentrated rations are typically referred to in the cattle industry as "fed cattle," and cattle not fed such concentrated rations are usually referred to as "non-fed cattle."

Our facilities utilize modern, highly-automated equipment to process and package beef products, which are typically marketed in the form of boxed beef. We also customize production and packaging of beef products for several large domestic and international customers. The designs of our facilities emphasize worker safety to ensure regulatory compliance and to reduce worker injuries. Our facilities are also designed to reduce waste products and emissions and dispose of waste in accordance with applicable environmental standards. We have equipped our Santa Fe Springs, California facility to process value-added products, including, for example, the *G.F. Swift 1855* brand line of premium beef products. Our Greeley, Colorado, Cactus, Texas, and Grand Island, Nebraska facilities have been equipped to produce value-added operations, including slicing, grinding and cubing of beef products for retail and food service customers.

Our JBS Packerland facilities are engineered to slaughter both fed cattle and cows. Many beef processing facilities in the United States are engineered to slaughter only cows or only fed cattle. This flexibility enables us to shift operations between fed cattle and cows based upon market availability, seasonal demand and margins. In addition, JBS Packerland facilities are located near major metropolitan areas, resulting in lower freight costs compared to cattle processing facilities in other localities. JBS Packerland's Tolleson, Arizona plant is located near Phoenix, Tucson, and Los Angeles; the Plainwell, Michigan plant is located near Chicago and Detroit; the Green Bay plant is located near Milwaukee and Chicago; and the Souderton, Pennsylvania plant is located near Baltimore, Philadelphia and New York.

Our food safety efforts incorporate what we believe to be a comprehensive network of leading technologies, such as MultiCheck, that minimize the risks involved in beef processing. Two of the elements of MultiCheck are double pasteurization of carcasses prior to chilling and a chilled carcass treatment using organic acid immediately prior to carcass disassembly. *SwiftTrace™* is another element we implemented as part of our on-going commitment to animal and human safety. *SwiftTrace™* is a process whereby live animals and finished animal products can be traced backward or forward in the supply chain. This process helps to build confidence from suppliers, customers and consumers in the food supply chain.

### *Australia*

Our ten processing facilities are strategically located for efficient livestock acquisition, availability of labor and access to shipping and distribution. Our facilities utilize modern, highly-automated equipment to process and package beef products. The Dinmore facility is the largest plant in Australia. The Beef City plant processes grain-fed cattle.

Since July 2007, we have made important capital and operational expenditures, including the installation of plate freezers and finely textured meat processing, as well as value-added variety meats capture technology. These expenditures have enhanced product quality, improved customer satisfaction and increased sales potential. We have equipped our facilities to process value-added products and consumer-ready products. Our facilities produce additional value-added products, including seasoned and marinated beef items. The design of our facilities emphasizes worker safety to ensure regulatory compliance and to reduce worker injuries. Our facilities are also designed to reduce waste products and emissions and dispose of waste in accordance with applicable environmental standards.

All products are subject to stringent animal husbandry and food safety procedures. Our processing facilities are operating under the strictest food safety and quality assurance regime to comply with international customer requirements. Our Dinmore and Beef City facilities are European Union-certified facilities, which enable us to export primal cuts to Europe. Our feedlots are managed with cattle friendly policies, providing a clean and scientific feeding regimen to ensure that safe grain-fed products are delivered to our customers.

## **Pork segment**

### ***Products, sales and marketing***

We are the third largest pork producer in the United States, with a slaughtering capacity of 48,500 head per day. A significant portion of our revenues are generated from the sale of fresh pork products, including trimmed cuts such as loins, roasts, chops, butts, picnics and ribs. Other pork products, including hams, bellies and trimmings, are sold predominantly to further processors who, in turn, manufacture bacon, sausage and deli and luncheon meats. The remaining sales are derived from by-products and from further-processed, higher margin products. Due to the higher margins attributable to value-added products, we intend to place greater emphasis on the sale of moisture-enhanced, seasoned, marinated and consumer-ready pork products to the retail channel and boneless ham and skinless bellies to the further processor channel. Our U.S. lamb business currently operates under our Pork segment and accounted for less than 1% of our total net sales for the fiscal quarter ended March 29, 2009. During the fiscal quarter ended March 29, 2009, our Pork segment had net sales of \$526.3 billion and EBITDA of \$7.5 million. See "Management's discussion and analysis of financial condition and results of operations" Supplemental financial data.

We market our pork products through several channels, including:

- national and regional retailers including supermarket chains, independent grocers, club stores and wholesale distributors;
- further processors that use its pork products as a food ingredient for prepared meals, raw material for sausage manufacturing and by-products for pharmaceutical production;
- international markets including Japan, Mexico and China, among others; and
- the food service industry, including food service distributors, fast food, restaurant and hotel chains and other institutional customers.

Pork products sold to the domestic retail and further processor channels comprised approximately 80% of total net sales for the fiscal quarter ended March 29, 2009. Pork exports contributed approximately 16% of net sales over the same period. We consider the overseas markets an opportunity for future growth.

Total net sales contribution by channel were:

	Fiscal year ended			Fiscal quarter ended
	2006	2007	2008	March 29, 2009
Retail .....	44□	42□	40□	44□
Further processors .....	41	42	40	36
International.....	11	12	16	16
Food service.....	4	4	4	4
Total .....	100□	100□	100□	100□

**Raw material**

The primary raw material that we use in our processing facilities is live hogs. We employ a network of hog buyers at our processing plants and buying stations to secure our hog supply. Approximately 69□ of our hog purchases are made through various forms of supply contracts that provide us with a stable supply of high-quality hogs. These supply contracts are typically four to five years in duration and stipulate minimum and maximum purchase commitments with prices based in part on the market price of hogs upon delivery, with adjustments based on quality, weight, lean composition and meat quality. We purchase the remaining approximately 31□ of our hogs on the spot market at a daily market price with the same general quality and yield grade as we require under our contracts. We require an extensive supplier certification program and conduct comprehensive cutting tests of our potential suppliers' animals to determine carcass composition and leanness.

Vertically integrated pork processors, which own hogs on feed, can be subject to significant financial impact in terms of working capital utilization, since hogs on feed eat in the yards for approximately 180 days and do not generate revenue until slaughtered. In addition, since hogs on feed consume feed with a replacement price that is subject to market changes, vertically integrated pork processors have direct financial exposure to the volatility in corn and other feedstock prices. We are a non-vertically integrated pork processor. We do not own hogs on feed and generally purchase finished hogs under long-term supply contracts at prevailing market prices, fabricate the hogs in our production facilities and sell the finished products at spot prices. Because the finished hogs typically are acquired within 24 hours of slaughter, they are not exposed to changing market prices over as great a span of time as vertically integrated processors.

**Processing facilities**

Our operations in the United States consist of three processing facilities located in close proximity to major hog growing regions of the country, a value-added facility that produces consumer-ready pork for certain customers and a lamb processing facility.

Our facilities utilize modern, highly-automated equipment to process and package pork products, which are typically marketed in the form of boxed pork. Since July 2007, we have made important capital and operational expenditures, including the installation of plate freezers and finely textured meat processing, as well as value-added variety meats capture technology. We believe that these expenditures have enhanced product quality, improved customer satisfaction and increased sales potential. We have equipped our Santa Fe Springs, California facility to process value-added products and consumer-ready products. Our Louisville, Kentucky and Marshalltown, Iowa facilities produce additional value-added products, including seasoned and marinated pork items. The design of our facilities emphasizes worker safety to ensure regulatory compliance and to reduce worker injuries. Our facilities are also designed to reduce waste products and emissions and dispose of waste in accordance with applicable environmental standards. Our Worthington, Minnesota and Marshalltown, Iowa pork plants currently have International Standards Organization (ISO) 9001 certified quality management systems, and Worthington is a European Union-certified facility that enables us to export primal cuts to Europe.

Our food safety task force consists of experts in the field of meat processing, food microbiology and quality assurance, all working together to assure compliance at all stages of the production chain and distribution channels. Our internal programs, policies and standards are designed to exceed both regulatory requirements and customer specifications. Our food safety efforts incorporate what we believe is a comprehensive network of leading technologies, such as MultiCheck, that minimize the risks involved in pork processing.

## Facilities

In the United States, we conduct our Beef and Pork segment operations through eight beef processing facilities, three pork processing facilities, one lamb slaughter facility, one case-ready beef and pork facility, one hide tannery, seven leased regional distribution centers and two grease producing facilities, as well as 11 feedlots operated by Five Rivers. In Australia, we operate our Beef segment operations through ten beef and smalls processing facilities, including the largest and what we believe is the most technologically advanced facility in Australia, and five feedlots, all of which are owned by us. Our facilities are strategically located to access raw materials in a cost effective manner and to service our global customer base. We have the ability to process approximately 28,600 cattle, 48,500 hogs, and 4,500 lambs daily in the United States and the ability to process 8,690 cattle and 15,000 smalls daily in Australia based on our facilities' existing configurations. In addition, our leased Sante Fe Springs facility is used to process beef and pork products.

The following table shows the location, capacity and segments represented by our processing facilities in the United States and Australia as of March 29, 2009, all of which are owned:

<b>Facility location by segment</b>			
<b>Beef segment</b>	<b>Cattle/day</b>	<b>Smalls/day</b>	<b>Hogs/day</b>
<b>United States</b>			
Cactus, TX .....	6,000	□	□
Grand Island, NE .....	6,000	□	□
Greeley, CO .....	6,000	□	□
Green Bay, WI .....	2,400	□	□
Hyrum, UT.....	2,500	□	□
Plainwell, MI.....	1,900	□	□
Souderton, PA.....	1,900	□	□
Tolleson, AZ.....	1,900	□	□
<b>Australia</b>			
Beef City .....	1,100	□	□
Brooklyn .....	1,500	8,000	□
Cobram .....	□	3,000	□
Devon Port.....	150	2,500	□
Dinmore .....	3,350	□	□
King's Island.....	180	□	□
Longford.....	480	1,500	□
Rockhampton.....	650	□	□
Townsville .....	900	□	□
Yarrawonga.....	380	□	□
<b>Pork segment</b>			
<b>United States</b>			
Greeley, CO .....	□	4,500	□
Louisville, KY .....	□	□	10,100
Marshalltown, IA .....	□	□	19,700
Worthington, MN .....	□	□	18,700

## Transportation

We own or lease approximately 600 trucks in the U.S. and Australia that are specially equipped to transport raw materials and finished products. In addition, we have recently entered into an agreement to lease an additional 400 trucks, which have begun to be delivered. We also utilize third-party shipping companies that provide us with additional trucks to transport our raw materials and finished products.

## Distribution

Our distribution varies by product type. We lease seven distribution facilities located in New Jersey, Florida, Nebraska, Arizona, Colorado and Texas and eight trading distribution facilities in Australia. These distribution facilities are strategically located near certain of our processing facilities. We also sell our products to food service distributors that further distribute our products to restaurants and hotel chains and other customers. These food service distributors purchase our products from both our processing facilities and our current distribution facilities. We intend to pursue a global direct distribution strategy that will enable us to improve our ability to service current customers and give us the opportunity to directly service new customers in the food service and retail channels. This direct distribution strategy requires that we substantially expand our distribution network and sales force domestically and internationally. See "Our strategy" Increase sales and enhance margins by significantly expanding our direct distribution network" above. We intend to continue to sell our products to food service distributors following the implementation of our direct distribution strategy.

## Competition

The beef and pork processing industries are highly competitive. Competition exists both in the purchase of live cattle and hogs, as well as in the sale of beef and pork products. Our products compete with a large number of other protein sources, including chicken, turkey and seafood, but their principal competition comes from other beef and pork processors, including Tyson Foods, Inc. and Cargill, Inc. Our management believes that the principal competitive factors in the beef and pork processing industries are price, quality, food safety, product distribution and brand loyalty.

In addition, we are pursuing a global direct distribution strategy as we seek to enhance our operating margins. This strategy may expose us to direct competition with our existing third-party food service distribution customers in some segments, which could affect our relationship with these customers. See "Risk factors" Risks relating to our business and the beef and pork industry" We face competition in our business, which may adversely affect our market share and profitability"and "Failure to successfully implement our business strategies may affect our plans to increase our revenue and cash flow."

## Employees

As of March 29, 2009, we had approximately 31,900 employees, including approximately 25,700 in our Beef segment and approximately 6,200 in our Pork segment. We consider relations with our employees to be good. Approximately 17,700 employees at our United States facilities are represented by labor organizations and work under collective bargaining agreements expiring between 2009 and 2010. Approximately 6,600 employees at our Australia plants are parties to Awards of Enterprise or Certified Agreements between various labor organizations and our Australian subsidiaries and work under collective agreements expiring between 2010 and 2014.

In 2001, ConAgra Beef Company, the predecessor to Swift Beef Company, paid a fine as a result of a lawsuit by the Department of Labor claiming that ConAgra Beef Company had acted improperly in too aggressively investigating the backgrounds of its job applicants. As a result, at the government's suggestion, we began to use E-Verify, a free and voluntary online system operated jointly by the United States Department of Homeland Security and the Social Security Administration, through which participating employers can determine the employment eligibility of new hires. To date, no civil or criminal charges have been filed by the U.S. government against us or any of our current or former management employees related to an employee's eligibility to work in the U.S.

On December 12, 2006, agents from ICE and other law enforcement agencies conducted on-site employee interviews at all of our U.S. production facilities, except with respect to the facilities located in Louisville, Kentucky and Santa Fe Springs, California, in connection with an investigation of the immigration status of an unspecified number of our workers. Approximately 1,300 individuals were detained by ICE and removed from our domestic labor force. On December 12, 2006, after a six- to seven-hour suspension of operations due to the employee interview process, we resumed production at all of our facilities in the United States, but at reduced output levels. We resumed normal production at our pork processing facilities in March 2007 and reported in May 2007 that we had returned to standard staffing levels at all of our beef processing facilities. See "Risk factors" Risks relating to our business and the beef and pork industries" Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business."

As of April 18, 2007, we implemented new policies for hiring our employees. According to the new policies, our human resources department will use all information obtained during the initial review of the documentation of the individuals applying for a job with us to verify the veracity of the relevant applicant's information throughout the entire hiring process. This policy includes (1) checking if such information is consistent with other information related to the applicant (such as prior places of residence and previous jobs) and (2) cross-checking the information against certain indicia of fraud to determine whether the documentation is consistent with the applicant's known identity. Applicants will not be hired if false documents are identified at any stage of the hiring process. In addition to these policies, we audit 100% of the documentation of new employees on a weekly basis and, on a quarterly basis, a manager that is not involved in the hiring process audits the documentation and the hiring process of 50 randomly selected employees. We also utilize a third-party immigration law expert to periodically audit our processes and methods.

Our performance depends on favorable labor relations with our employees. Any deterioration of those relations or increase in labor costs could adversely affect our business. See "Risk factors" Risk factors relating to our business and the beef and pork industry Our performance depends on favorable labor relations with our employees and our compliance with labor laws. Any deterioration of those relations or increase in labor costs due to our compliance with labor laws could adversely affect our business.

## Regulation

Our operations are subject to extensive regulation by the USDA, the EPA, and other state, local and foreign authorities regarding the processing, packaging, storage, distribution, advertising and labeling of its products, including food safety standards.

Our United States operations are subject to extensive regulation by the EPA and other state and local authorities relating to handling and discharge of waste water, storm water, air emissions, treatment, storage and disposal of wastes, handling of hazardous substances and remediation of contaminated soil, surface water and groundwater. Our Australian operations also are subject to extensive regulation by the Australian Quarantine Inspection Service as well as Australian environmental authorities. The EPA, AQIS, and/or other U.S. or Australian state and local authorities may, from time to time, adopt revisions to environmental rules and regulations, and/or changes in the terms and conditions of our environmental permits, with which we must comply. Such compliance may require us to incur additional capital and operating expenses which may be significant. In order to ensure ongoing compliance with existing environmental laws, rules, and regulations, we must, from time to time, replace, repair, or upgrade existing facilities, equipment, or supplies, which may require us to incur additional capital. Some of our facilities discharge wastewater to municipally operated wastewater treatment plants, and if such municipal plants are unable to comply with their own environmental permits, they may require that we make improvements or operational changes that could result in additional costs. In addition, some of our facilities use hazardous substances such as ammonia in refrigerant systems, and releases resulting from leaks or other accidental occurrences could result in liability. Some of our properties have been impacted by contamination from spills or other releases, and we or our predecessors have incurred costs to remediate such contamination. We also have voluntarily upgraded some existing facilities to address concerns of local governmental officials and/or our neighbors. See "Risk factors" Risks relating to our business and the beef and pork industries Compliance with environmental requirements may result in significant costs, and failure to comply may result in civil liabilities for damages as well as criminal and administrative sanctions and liability for damages.

Increasing efforts to control emissions of greenhouse gases, or GHG, are likely to impact us. In the United States, the EPA recently proposed a mandatory GHG reporting system for certain activities, including manure management systems, which exceed specified emission thresholds. The EPA has also announced a proposed finding relating to GHG emissions that may result in promulgation of GHG air quality standards. The U.S. Congress is considering various options including a cap and trade system which would impose a limit and a price on GHG emissions, and establish a market for trading GHG credits. The House of Representatives recently passed a bill contemplating such a cap and trade system, and the bill is now before the Senate. Certain states have taken steps to regulate GHG emissions that may be more stringent than federal regulations. In Australia, the federal government has proposed a GHG cap and trade system that would cover agricultural operations, including certain of our feedlots, and at least two of our processing plants. Certain states in Australia could also adopt regulations of GHG emissions which are stricter than Australian federal regulations. While it is not possible to estimate the specific impact final GHG regulations will have on our operations, there can be no guarantee that these measures will not result in significant impacts on us.

Our U.S. operations are subject to the U.S. Packers and Stockyards Act of 1921. This statute generally prohibits meat packers in the livestock industry from engaging in certain anti-competitive practices. In addition, this statute requires us to make payment for our livestock purchases before the close of the next business day following the purchase and transfer of possession of the livestock we purchase, unless otherwise agreed to by our livestock suppliers. Any delay or attempt to delay payment will be deemed an unfair practice in violation of the statute. Under the Packers and Stockyards Act, we must hold our cash livestock purchases in trust for our livestock suppliers until they have received full payment of the cash purchase price. As of March 29, 2009, we maintained surety bonds in the aggregate amount of approximately \$70.4 million to secure our payment obligations to our livestock suppliers.

We are also subject to voluntary market withdrawals and recalls of our meat products in the event of suspected contamination or adulteration that could constitute food safety hazards. We maintain a rigorous program of interventions, inspections and testing to reduce the likelihood of food safety hazards. As a proactive measure, our management team expanded our testing procedures in all of our beef processing plants. We recently undertook a voluntary recall of certain of our beef products. See **Risk factors** Risks relating to our business and the beef and pork industries Any perceived or real health risks related to the food industry could adversely affect our ability to sell our products. If our products become contaminated, we may be subject to product liability claims and product recalls.

We monitor certain asset retirement obligations in connection with our operations. These obligations relate to clean-up, removal or replacement activities and related costs for in-place exposures only when those exposures are moved or modified, such as during renovations of our facilities. These in-place exposures include asbestos, refrigerants, wastewater, oil, lubricants and other contaminants common in manufacturing environments. Under existing regulations, we are not required to remove these exposures and there are no plans or expectations of plans to undertake a renovation that would require removal of the asbestos, nor the remediation of the other in place exposures at this time. The facilities are expected to be maintained and repaired by activities that will not result in the removal or disruption of these in place exposures. As a result, there is an indeterminate settlement date for these asset retirement obligations because the range of time over which we may incur these liabilities is unknown and cannot be reasonably estimated. Therefore, we cannot reasonably estimate and have not recorded the fair value of the potential liability.

Our facilities have, from time to time received notices from regulatory authorities, citizens groups or others asserting that we are not in compliance with specified laws and regulations, and sometimes our facilities have been subject to additional investigations and/or enforcement actions regarding such alleged violations by us or by our predecessors. In some instances, litigation ensues, including the matters discussed below in **Legal proceedings**.

## **Legal proceedings**

From time to time, we are parties to various legal proceedings incident to our business. As of the date of this prospectus, there were no legal proceedings against us with respect to matters arising outside the ordinary course of business or which we anticipate would have a material adverse effect on us other than the matters described under **Wastewater issues** below.

### **Wastewater issues**

#### *Smithfield Souderton, Pennsylvania facility*

In connection with the JBS Packerland Acquisition, we acquired a beef processing plant in Souderton, Pennsylvania. There were two reported wastewater incidents at the Souderton facility in 2006. These incidents were resolved by a consent order and agreement with the State of Pennsylvania providing for civil penalties and damages totaling \$77,888 and establishing an enforceable schedule for the completion of a planned \$5 million upgrade to the facility's existing wastewater treatment system.

On August 10, 2007, the Souderton facility experienced a separate wastewater release, which reached a nearby tributary, Skippack Creek. The facility received an EPA Section 308 Information Request pursuant to the Clean Water Act from the Environmental Protection Agency Region III requesting further details on, among other things, this incident and overflows generally from the collection system that routes wastewater from facility process units to the wastewater treatment works.

On December 5, 2007, the Souderton facility experienced an operational upset in a part of the chlorination system of its wastewater treatment plant. The plant discharges to Skippack Creek. JBS Packerland provided notice of the upset on the same day, and then filed a written report to the Pennsylvania Department of Environmental Protection and the Pennsylvania Fish and Boat Commission. In the written report, JBS Packerland stated that it had already reconfigured the chlorination system to prevent a recurrence and that the facility intended to replace the existing chlorination system, pending approval of plans that had been submitted to the State prior to the upset. The EPA and the Department of Justice have commenced an investigation into the incident and have issued grand jury subpoenas for documents and testimony. The facility is cooperating with the investigation.

On June 10, 2008, the Souderton facility experienced a separate release, which reached Skippack Creek and resulted in a fish kill. An initial investigation revealed the discharge was condenser water from JBS Packerland's rendering plant which had bypassed the wastewater treatment facility. The facility provided notice of the release on the same day to state environmental authorities and filed a written report with the Pennsylvania Department of Environmental Protection and Fish and Boat Commission. The EPA has commenced an investigation, and the facility is cooperating with the investigation.

On December 29, 2008, the United States Department of Justice commenced a civil action against us in the federal district court for the Eastern District of Pennsylvania in connection with these past violations of the federal Clean Water Act at the Souderton facility. At this time, due to the nature and circumstances of this enforcement action, it is not possible to assess the liability, including any potential penalties, associated with these incidents. In connection with the JBS Packerland Acquisition, Smithfield Foods, Inc. agreed to indemnify us for all damages arising from the wastewater incidents of August 10, 2007 and December 5, 2007. Smithfield Foods, Inc. also agreed to indemnify us for costs and damages arising from the June 10, 2008 wastewater incident, and any other breaches of its environmental representations and warranties, subject to an aggregate \$100 million cap and \$2.5 million deductible (excluding claims of \$25,000 or less) generally applicable to Smithfield Foods' indemnity obligations, and subject to certain time and other limitations.

#### *Grand Island, Nebraska facility*

In May 2008, the Nebraska Department of Environmental Quality, or DEQ, and the EPA alleged that from 2004 to the present the wastewater discharge from our Grand Island, Nebraska plant had violated various provisions of the Nebraska Environmental Protection Act and the federal Clean Water Act by causing the City of Grand Island to violate the limits in its wastewater discharge permit. The EPA and DEQ are seeking a fine and an injunction to ensure our future compliance with the Nebraska Environmental Protection Act and the federal Clean Water Act. We are currently conducting settlement negotiations with the EPA and DEQ to resolve this matter.

In January 2009, we received a grand jury subpoena from the United States Attorney's Office for the District of Nebraska, requesting documents related to our wastewater pretreatment system for the Grand Island plant. We are complying with the subpoena. Given the nature and circumstances of these matters, we are not able to estimate the liability or other impacts on us, including any penalties associated with them.



## **Intellectual property**

We hold a number of trademarks, patents and domain names that we believe are material to our business and which are registered with the United States Patent and Trademark Office, including “Swift” and “Monfort” derivative trade names and “Miller Blue Ribbon Beef.” We have also registered “Swift” and “Monfort” derivative trademarks in most of the foreign countries to which we sell our products, except in Argentina, Canada, Japan and in the Philippines. In Argentina, the “Swift” and derivative trademarks are owned by JBS S.A. In Japan, we are authorized to use the trademark “Swift” under an exclusive license agreement entered into with Nippon Meat Packers Inc. Currently, we have a number of patent applications and trademark registrations pending in the United States and in foreign countries. In addition to trademark protection, we attempt to protect our unregistered trademarks and other proprietary information under trade secret laws, employee and third-party non-disclosure agreements and other laws and methods of protection.

## **Insurance**

We have an insurance program that provides for protection against (1) property damages affecting most of our buildings, furniture, machinery, appliances, products and raw materials caused by fire, lightning, explosion, flooding, electrical faults, landslides, riots, strikes, lock-outs and windstorms, (2) deterioration of goods in refrigerated areas, and (3) robbery and theft. Our insurance is renewed annually. We believe that our insurance policy provides suitable coverage for the risks inherent to our operations both in terms of the type of coverage and of the insured amounts. Even though we have insurance policies, there are risks that are not insurable, such as war, unavoidable and unforeseen circumstances or the interruption of some activities and losses arising from events that are not insured. If any of these events occur, we may incur significant costs which may have a material adverse effect upon our financial performance and results of operation.

We are self-insured for employee medical and dental benefits and purchase insurance policies with deductibles for certain losses related to worker's compensation and general liability claims. We purchase stop-loss coverage in order to limit our exposure to any significant level of certain claims. Self-insured losses are accrued based upon periodic assessments of estimated settlements for known and anticipated claims.

## **Information technology**

Our software system of accounts receivable, accounts payable, inventory, accounting, payroll and procurement, which is used by our legacy business units, allows us to accurately manage our cash flows, accounts receivable and accounts payable in our operating locations. These systems are being integrated into the newly acquired businesses. We continue to analyze new information technology alternatives to increase our efficiency and reduce our costs.

We have a strong track record of managing the integration of information technology. For example, we have already fully integrated into our reporting structure the Tasman Group and JBS Packerland, including Five Rivers.

# Management

## Directors and executive officers

The following table sets forth the name, age and position of individuals who currently serve as the directors and executive officers of JBS USA Holdings, Inc. Ages are as of April 10, 2009.

Name	Age	Position(s)
Wesley Mendonça Batista	39	President, Chief Executive Officer and Director
André Nogueira de Souza	40	Chief Financial Officer
Dennis Roerty	44	Treasurer
Robert Daubenspeck	49	Head of Human Resources
Martin J. Dooley	48	Head of Pork
Brent Eastwood	43	Head of JBS Trading
William G. Trupkiewicz	45	Chief Accounting Officer, Secretary
Richard Vesta	62	Head of Beef
Joesley Mendonça Batista	37	Director
José Batista Júnior	49	Director

The following is a biographical summary of the experience of our directors and executive officers.

*Wesley Mendonça Batista* became our President and Chief Executive Officer in May 2007. Mr. Batista also serves as a member of our Board of Directors. In addition to his responsibilities in the United States, Mr. Batista is currently the Executive Director of Operations of JBS S.A. and is the Vice President of its Board of Directors. Mr. Batista has served in various capacities at JBS S.A. since 1987. Mr. Batista is the brother of Joesley Mendonça Batista, the President of JBS S.A., and José Batista Júnior, a Director of JBS S.A., and is the son of José Batista Sobrinho, the founder of JBS S.A. and a member of its Board of Directors.

*André Nogueira de Souza* began acting as our Chief Financial Officer in August 2007. Before joining us, Mr. Nogueira served as head of Corporate Banking for Banco do Brasil in their New York and São Paulo offices from January 2000 to August 2007.

*Dennis Roerty* became our Treasurer in February 2009. Prior to that date, Mr. Roerty was the Treasurer of UAP Holding Corp. from March 2004 to February 2009, where he was responsible for treasury, financial planning and analysis, and leading the company's acquisition program. Prior to joining UAP, Mr. Roerty worked for PPL Global, LLC from 1998 to 2004, serving most recently as Director of Acquisitions and Divestitures. Mr. Roerty also held various positions in financial analysis and treasury with Air Products and Chemicals from 1988 to 1998.

*Robert Daubenspeck* became our head of Human Resources in February 2009. Prior to serving in such role, Mr. Daubenspeck served in the same capacity for JBS Packerland from 2002 to 2008. Previously, Mr. Daubenspeck has served as human resources director for JBS Packerland's Souderton, Pennsylvania plant.

*Martin J. Dooley* became the head of our Pork segment in June 2007. From May 2006 to May 2007, Mr. Dooley was our Executive Vice President, Margin Management. From November 2004 to May 2006, Mr. Dooley was employed as Vice President, Margin Management of Swift Foods Company and was responsible for cattle and hog procurement, beef and pork pricing, and risk management. From September 2002 to November 2004, Mr. Dooley was employed as Vice President, Processor Sales, Beef and Pork of Swift Food Company. From 1998 to 2002, Mr. Dooley was Swift Food Company's Vice President Processor Sales and Risk Management, Pork. From 1993 to 1998, Mr. Dooley was Swift Food Company's Vice President Processor Sales, Pork. Prior to 1993, Mr. Dooley was employed in various positions in product management and sales for Swift Food Company.

*Brent Eastwood* became our head of JBS Trading in October 2007. Prior to serving as head of JBS Trading, Mr. Eastwood served as General Manager of Trading for Swift AMH in Australia for six years. Prior to joining Swift, Mr. Eastwood served as Managing Director of ConAgra Trade Group's Australian Meat Division.

*William G. Trupkiewicz* became the Corporate Controller, Chief Accounting Officer and Secretary of JBS USA Holdings and its subsidiaries in July 2007. Mr. Trupkiewicz served as Acting Treasurer of JBS USA Holdings, Inc. from June 2008 to February 2009 and as Acting Chief Financial Officer of predecessor companies effective February 20, 2006 until October 26, 2006. Mr. Trupkiewicz served in senior financial positions including Senior Vice President, Corporate Controller and Chief Accounting Officer of predecessor companies from September 2002 until May 2006. Mr. Trupkiewicz has been employed by JBS USA Holdings, Inc. and its predecessor companies in various senior finance and accounting positions since October 1994. From June 1993 until October 1994, Mr. Trupkiewicz was employed as Vice President, Controller of Vessels Oil and Gas Company, a Denver-based oil and gas production company. Prior to his employment at Vessels, Mr. Trupkiewicz served as Vice President Financial Reporting and Tax for SafeCard Services, Inc., a NYSE traded consumer products company. From July 1985 until June 1992, Mr. Trupkiewicz was employed by Price Waterhouse LLC serving in various capacities in its audit practice. Mr. Trupkiewicz is a Certified Public Accountant.

*Richard Vesta* became the head of our Beef segment in March 2009. Prior to that date, Mr. Vesta served as president and chief executive officer of Smithfield Beef Group, Inc. (now known as JBS Packerland) from 2002 to 2009. Prior to that, Mr. Vesta held senior executive positions in the beef industry with Packerland Packing Company, Inc., Land O'Lakes, Swift Independent Packing Company and Val-Agri Inc., Monfort and Murco. Mr. Vesta began his career in the meat industry as a retail meat cutter, eventually holding various senior positions in retail meat sales at a regional chain.

*Joesley Mendonça Batista* is currently the Chief Executive of JBS S.A. and the President of its board of directors. Mr. Batista has served in various capacities at JBS S.A. since 1988. Mr. Batista is the brother of Wesley Mendonça Batista and the son of Josué Batista Sobrinho, the founder of JBS S.A.

*José Batista Júnior* is currently a director of JBS USA, LLC and JBS S.A. Mr. Batista Júnior has served in various capacities at JBS S.A. since 1974 and as a member of the board of directors of JBS S.A. since January 2, 2007. Mr. Batista Júnior is the brother of Wesley Mendonça Batista and Joesley Mendonça Batista, and the son of Josué Batista Sobrinho, the founder of JBS S.A.

## Board composition after this offering

Upon the closing of this offering, our board of directors will consist of seven members. Our amended and restated certificate of incorporation and amended and restated bylaws in effect immediately following this offering will provide that the number of directors will be fixed from time to time by resolution of the board.

All directors hold office until their successors have been elected and qualified or until their earlier death, resignation, disqualification or removal. Effective upon the closing of this offering, we will divide the terms of office of the directors into three classes:

- Class I, whose term will expire at the annual meeting of stockholders to be held in 2010;
- Class II, whose term will expire at the annual meeting of stockholders to be held in 2011; and
- Class III, whose term will expire at the annual meeting of stockholders to be held in 2012.

Upon the closing of this offering, Class I shall consist of Messrs. \_\_\_\_\_ and \_\_\_\_\_, Class II shall consist of Messrs. \_\_\_\_\_ and \_\_\_\_\_ and Class III shall consist of Messrs. \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

At each annual meeting of stockholders after the initial classification, the successors to directors whose terms then expire will serve from the time of election and qualification until the third annual meeting following election and until their successors are duly elected and qualified. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

## Director independence

Currently, our three directors are not considered independent under the applicable provisions of federal securities laws and the rules and regulations of the New York Stock Exchange, or the NYSE, as detailed below:

Director	Reason for lack of independence
Joesley Mendonça Batista	Chief Executive Officer of JBS S.A. and beneficial ownership greater than 5%
Wesley Mendonça Batista	Chief Executive Officer of JBS USA Holdings, Inc. and beneficial ownership greater than 5%
José Batista Júnior	Beneficial ownership greater than 5%

We intend to avail ourselves of the "controlled company" exception under the corporate governance rules of the NYSE. Accordingly, we will not have a majority of independent directors on our board of directors. In accordance with NYSE rules applicable to "controlled companies" such as ours, upon the completion of this offering, we expect that at least one member of our board of directors will be independent. We expect to add another independent director within three months following the completion of this offering and one additional independent director to our board of directors within one year following the completion of this offering.

## Committees of the board of directors

Upon the closing of this offering, we will have an audit committee and a compensation committee. As a "controlled company," we do not expect to have a nominating or corporate governance committee upon the closing of this offering, and we do not intend for our compensation committee to be composed entirely of independent directors.

### **Audit committee**

The "controlled company" exception does not modify the independence requirements for the audit committee, and upon the completion of this offering our audit committee will be composed of at least three members, a majority of whom will be independent within three months from the date of this prospectus and each of whom will be independent within one year from the date of this prospectus. For each individual to be deemed to be independent, our board will determine (a) that there is no relationship with JBS USA Holdings, Inc., or (b) the relationship is immaterial. The board has considered the independence standards of the NYSE.

The composition, duties, and responsibilities of our audit committee are set forth below.

Upon completion of this offering our audit committee will consist of \_\_\_\_\_ (chair), and \_\_\_\_\_ is an "audit committee financial expert" within the meaning of the rules and regulations of the Securities and Exchange Commission.

The audit committee is responsible for:

- selecting the independent auditor;
- approving the overall scope of the audit;
- discussing the annual audited financial statements and quarterly reviewed financial statements, including matters required to be reviewed under applicable legal and regulatory requirements, with management and the independent auditor;
- discussing earnings press releases and other financial information provided to the public with management and the independent auditor, as appropriate;
- discussing with management and the independent auditor, as appropriate, any audit problems or difficulties and management's response;
- discussing our risk assessment and risk management policies;
- reviewing our financial reporting and accounting standards and principles, significant changes in such standards or principles, and the key accounting decisions affecting our financial statements;
- reviewing and approving the internal corporate audit staff functions;
- reviewing our internal system of audit, financial, and disclosure controls and the results of internal audits;
- annually reviewing the independent auditor's written report describing the auditing firm's internal quality-control procedures and any material issues raised by the auditing firm's internal quality-control review or peer reviews of the auditing firm;
- reviewing and investigating matters pertaining to the integrity of management;
- reviewing and approving all transactions between us and our officers, directors and principal stockholders and their affiliates for potential conflicts of interest;
- establishing procedures concerning the treatment of complaints and concerns regarding accounting, internal accounting controls, or audit matters;

- meeting separately with management, the corporate audit staff, and the independent auditor;
- handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time; and
- reporting regularly to the full board of directors.

### **Compensation committee**

For fiscal 2008, compensation decisions were made by a committee comprised of Wesley Batista, our chief executive officer, and our head of human resources. Between January 1, 2008 and October 22, 2008, the position of head of human resources was filled by John R. Shandley. From October 23, 2008 through December 28, 2008, that position was held by our current head of human resources, Robert Daubenspeck. Decisions concerning our chief executive officer's compensation are made by our board of directors.

Upon completion of this offering our compensation committee will consist of \_\_\_\_\_ (chair), \_\_\_\_\_ and \_\_\_\_\_.

The compensation committee is responsible for:

- reviewing and approving corporate goals and objectives relevant to the compensation of our executives and key management employees;
- annually evaluating our executives' and key management employees' performance in light of these goals;
- reviewing and approving the compensation and incentive opportunities of our executives and key management employees;
- reviewing and approving employment contracts, severance arrangements, incentive arrangements, change-in-control arrangements, and other similar arrangements between us and our executives and key management employees;
- receiving periodic reports on our compensation programs as they affect all employees; reviewing executive succession plans for business and staff organizations; and
- handling such other matters that are specifically delegated to the compensation committee by the board of directors from time to time.

On and after the effective date of this offering, the compensation committee shall continue to oversee our executive compensation program on behalf of the board. In the performance of this function, the compensation committee will meet at least quarterly and, among other things, review and discuss with management the compensation discussion and analysis set forth below.

### **Other committees**

Our board of directors may establish other committees as it deems necessary or appropriate from time to time.

### **Code of ethics**

We have adopted a code of conduct applicable to all employees. In 2002, we adopted a code of ethics specifically applying to our chief executive officer, chief financial officer, chief accounting officer and controller. The code of ethics for such officers reinforces our commitment to:

- deter wrongdoing and promote honest and ethical conduct;
- provide full, fair, accurate, timely, and understandable disclosure in public reports;
- comply with applicable laws;
- ensure prompt internal reporting of code violations; and
- provide accountability for adherence to the code.

The financial code of ethics is available in the investor information section of our website at [www.jbsswift.com](http://www.jbsswift.com).

# Compensation discussion and analysis

## Overview

This compensation discussion and analysis describes the material elements of compensation paid to our executive officers as well as the objectives and material factors underlying our compensation policies and decisions. The information in this compensation discussion and analysis provides context for the compensation disclosures in the tables and related narrative discussions that follow. When we refer to our named executive officers, we are referring to the five individuals listed in the summary compensation table below.

In designing our executive compensation program, we place significant emphasis on performance. Consequently, a majority of each named executive officer's total potential compensation is "at risk" and tied to our financial performance. During fiscal 2008, our overall financial performance was above that of recent years. This had the effect of increasing the amount of incentive compensation received by our corporate level executives and by many of the managers of our business units, including our named executive officers. These results were consistent with our fundamental philosophy of paying for performance.

### **Compensation philosophy and objectives**

The primary goal of our executive compensation program is the same as our goal for our overall operations—to maximize corporate performance. To accomplish this goal, our executive compensation program is designed to achieve the following objectives:

- *Attracting and retaining top talent.* The compensation of our executives must be competitive with the organizations with which we compete for talent so that we may attract and retain talented and experienced executives. We consider our competitors to be Smithfield Foods, Inc., Tyson Foods Inc., Cargill Inc., Hormel Foods Corporation, Sara Lee Corporation and National Beef Packing Company, LLC, among others in the food, protein and packaged consumer products industries. Our executives have, on average, approximately 15 years of experience with us and our predecessors.
- *Paying for performance.* We structure a significant portion of our executives' compensation to be subject to corporate and business unit performance measures and therefore be "at risk." Amounts of performance-based compensation can vary widely from year to year depending on an executive's performance and the volatile nature of our agricultural commodity-based industry. However, in fiscal 2008, our chief executive officer declined to receive performance-based compensation despite our record financial performance. We anticipate developing a performance-based compensation package for our chief executive officer following this offering.
- *Alignment with the interests of our shareholders.* We believe that equity-based awards can be an effective means of aligning an executive's financial interests with those of our shareholders by providing value to the executive only if the market price of our stock increases. While we did not have the ability to provide equity-based awards in fiscal 2008, we intend to adopt a stock-based incentive plan which will become effective immediately prior to this offering. See "2009 stock incentive compensation plan" below.

Each element of our compensation program is designed to achieve one or more of these objectives. The structure of a particular executive's compensation may vary depending on the scope and level of that executive's responsibilities. For an executive with corporate level responsibilities and qualifications, performance-based compensation is generally based on our consolidated results of operations. In contrast, for an executive responsible for an individual business unit, performance-based compensation historically has been based on a combination of the following: individual behavioral assessment, personal goal achievement, business unit performance and overall consolidated results of operations. Our compensation practices for business unit executives were adopted in recognition of the belief that the efforts of these executives primarily impact the financial performance of the respective units they manage and thus, it is important that compensation be tied directly to the executive's performance and business unit performance as well as our consolidated results of operations. In addition, beginning in fiscal 2009, these business unit managers are expected to receive an increased proportion of their total compensation in the form of long-term equity incentives, thus providing the managers with incentives tied to our overall operating and share performance.

## Determining executive compensation

Our chief executive officer makes recommendations to the compensation committee regarding the amounts of salaries, annual cash incentive payments and, beginning in fiscal 2009, stock-based awards, if any, for key employees, including all other named executive officers. For executive officers, including all other named executive officers, whose annual cash incentive awards are based partly on individual performance, our chief executive officer's evaluation of the executive officer's individual performance is provided to and reviewed by the compensation committee. To assist the compensation committee in carrying out its responsibilities, the compensation committee may from time to time retain an independent compensation consultant. The compensation committee also annually reviews executive pay tallies for our executive officers detailing the amount of each element of total compensation and accumulated equity holdings. Based on the foregoing, the compensation committee uses its judgment in making compensation decisions that it believes will best carry out our compensation philosophy and objectives. The board of directors determines our chief executive officer's compensation based on its evaluation of our chief executive officer's individual performance and our company's performance.

### *Elements of our compensation program*

In fiscal 2008, total compensation for our executive officers consisted of the following components:

- base salary;
- annual incentive cash payments;
- additional cash bonuses;
- retirement compensation; and
- perquisites and personal benefits.

All of our named executive officers are employed at-will, without employment agreements, severance payment agreements or payment arrangements that would be triggered by a change of control of us, with the exception of Mr. Dooley, who has a retention agreement with us as described under "Estimated payments upon termination or change of control" below.

*Base salary.* Base salaries are intended to provide a fixed level of compensation sufficient to attract and retain an effective management team when considered in combination with other components of our executive compensation program that are performance-based. The relative levels of base salary for executive officers are designed to reflect each executive officer's scope of responsibilities and accountability within our company. Base salaries are reviewed annually to determine if they are equitably aligned within our company and are at sufficient levels to attract and retain top talent. Consistent with our greater emphasis on performance-based pay, base salaries for executives are normally changed only on an infrequent basis and may remain the same for several years.

*Annual incentive cash payments.* During fiscal 2008, we provided performance-based annual cash incentive compensation opportunities to our named executive officers, excluding our chief executive officer. These awards are based on performance measures that seek to provide a direct link between the company's and an executive's performance and the amount of incentive compensation earned.

These awards utilize formulas set by our compensation committee at the beginning of the fiscal year, generally based on the named executive officers' personal performance goals and our Adjusted EBITDA, the Adjusted EBITDA of a particular subsidiary or business segment, or a combination of the two, depending upon the scope of the executive's duties. See "Summary historical and pro forma financial data" for the definition of Adjusted EBITDA. The potential payouts of these awards are a percentage of the named executive officer's base salary, as determined by our compensation committee at the beginning of the fiscal year. The weighting of each of these performance measures and target payout as a percentage of base salary for fiscal 2008 are displayed in the following table for each relevant named executive officer:

Name	Weighting			Target payout relative to base salary (%)
	Personal goals (%)	Business unit Adjusted EBITDA (%)	Company Adjusted EBITDA (%)	
Andr� Nogueira de Souza.....	30	70	70	75
Iain Mars(1).....	100	100	100	100
Martin J. Dooley(2).....	30	20	50	70
H. Brent Eastwood.....	30	20	50	100

(1) Australian operations

(2) Pork segment

Under our performance-based annual cash incentive program, if actual business unit or company Adjusted EBITDA performance is below a threshold of 85% of the corresponding target Adjusted EBITDA, no amount is paid out under the financial portion of this program. If at least 85% of target business unit or company Adjusted EBITDA is achieved, 50% of the corresponding target Adjusted EBITDA-based annual cash incentive is payable. If actual business unit or company Adjusted EBITDA performance is between the corresponding threshold and target Adjusted EBITDA, the remaining 50% of the Adjusted EBITDA-based annual cash incentive that is payable is determined on a linear basis based on the extent to which actual performance exceeds 85%, and is less than 100%, of the target Adjusted EBITDA. If actual performance equals target business unit or company Adjusted EBITDA, 100% of the corresponding Adjusted EBITDA-based annual cash incentive is payable. If actual business unit or company Adjusted EBITDA performance exceeds 100% of the corresponding target Adjusted EBITDA, the Adjusted EBITDA-based annual cash incentive payable exceeds the targeted payout in the same proportion as actual performance exceeds target Adjusted EBITDA. There is no limit on the maximum business unit or company Adjusted EBITDA-based annual cash incentive payable as described above. The compensation committee may, in its discretion, pay bonuses in excess of the amount determined by the formula under the incentive program. See "Additional cash bonuses" below. If a named executive officer's personal performance goals are not satisfied, then his annual cash incentive payout is reduced by his personal performance goals weighting percentage (shown in the table above). On the other hand, if a named executive officer's personal performance goals are met or exceeded, then the target payout based on personal performance goals is paid out.

Financial goals are the same objectives set forth in our internally developed corporate budget. For fiscal 2008, our target Adjusted EBITDA was \$285 million, and our actual Adjusted EBITDA was \$398.2 million, or 140% of target. Business unit Adjusted EBITDA for each subsidiary or business segment is typically set at very challenging levels. In four of our last five fiscal years, budgeted company and business unit financial performance goals were not met. Personal performance goals are intended to add economic value and to align each executive officer's compensation with expectations of leadership and achievement placed on the executive officer to realize various aspects of our business plan. Personal performance goals are set so that the full amount of the annual cash incentive with respect to these goals may only be attained through superior performance. For fiscal 2008, personal goals of our named executive officers related to cost reduction efforts, productivity (yield and throughput increases), improved employee satisfaction and organizational leadership. A named executive officer's actual performance against his personal performance goals is determined by our compensation committee based on its subjective evaluation of the named executive officer's performance.

The potential payouts under the named executive officers' annual cash incentive awards are displayed in the "Grants of plan-based awards table" below. In February 2009, the compensation committee evaluated performance against the relevant performance goals and determined the amount of annual cash incentive payment made to each of our named executive officers (other than our chief executive officer). Each such named executive officer achieved his personal performance goals and achieved or exceeded relevant business unit and company Adjusted EBITDA targets. The actual amount of annual cash incentive payment made to each named executive officer is displayed in the "Non-equity incentive plan compensation" column of the summary compensation table below.



*Additional cash bonuses.* We paid additional cash bonuses to Messrs. Nogueira and Dooley with respect to fiscal 2008 in amounts the compensation committee determined, in its discretion, to be appropriate to reward elements of performance that were not reflected in the annual incentive awards and in light of our outstanding financial performance during fiscal 2008. These additional cash bonuses are shown in the "Bonus" column of the summary compensation table below. Mr. Nogueira received a discretionary bonus of \$200,000 at the sole discretion of our compensation committee. In connection with the Swift Acquisition in July 2007, we entered into employee retention agreements with key members of management, including Mr. Dooley. Under the terms of his agreement, during fiscal 2008, he was paid the second installment of \$318,750. The remaining \$200,000 reported in the "Bonus" column of the summary compensation table for Mr. Dooley represents the discretionary component of his annual cash incentive, as determined by our compensation committee.

*Retirement compensation.* Our named executive officers participate in the same retirement plans on the same terms as provided to most of our salaried employees. In the United States, this plan is a tax-qualified employee-funded 401(k) savings plan with employer matching contributions. Participation in this plan is voluntary. Therefore, the amount of compensation deferred and the amount of our matching contribution varies among employees, including our named executive officers. However, the same formulas are used to determine benefits for all participants in this plan. We also contribute to a superannuation plan on behalf of Mr. Mars (who is not eligible to participate in our 401(k) savings plan). These plans do not involve any above-market returns, as returns depend on actual investment results.

*Perquisites and personal benefits.* We provide a limited number of perquisites to our executive officers, including our named executive officers. The summary compensation table below contains an itemized disclosure of all perquisites to our named executive officers, regardless of amount. We believe that these minimal perquisites are reasonable and consistent with those paid to other executives in our industry. Providing these perquisites helps to keep our base compensation packages competitive. Although we do not typically provide our executives with tax gross-ups, in fiscal 2008, we provided Mr. Eastwood with a tax gross-up for the company's reimbursement of certain relocation expenses incurred by him to relocate to Greeley, Colorado in connection with his commencement of employment with us.

We also provide certain benefits to substantially all salaried employees that are not included as perquisites in the summary compensation table for the named executive officers because they are broadly available. These include health and welfare benefits, disability and life insurance, education and tuition reimbursement and an employee assistance program.

*Future equity incentive awards.* Historically, we have not provided long-term incentive compensation in the form of stock options. Beginning on the completion date of this offering, however, we anticipate providing long-term incentive compensation to our named executive officers and other select employees in the form of stock-based awards under our 2009 Stock Incentive Compensation Plan, or the 2009 Plan, the material terms of which are summarized below under "2009 stock incentive compensation plan." We believe that stock-based compensation can serve as an effective motivational tool by aligning an executive's economic interests with those of our shareholders. We anticipate providing stock-based awards with terms and conditions that promote long-term tenure and encourage long-term strategic decision-making by our executive officers. We also anticipate that stock-based compensation will constitute a larger percentage of total compensation for corporate level executives than for business unit management because a business unit manager has less involvement in the performance of other business units which impact overall results and indirectly impact the market price of our common stock.

We anticipate that our chief executive officer will recommend to the compensation committee the recipients and sizes of stock-based awards, and the board of directors will determine the size of stock-based awards to be granted to our chief executive officer. In evaluating these recommendations, and in determining the size of stock-based awards for our chief executive officer, we anticipate that the compensation committee and the board of directors, as applicable, will consider a number of factors, including but not limited to:

- the level of incentive already provided to the recipient by the size of prior grants or existing holdings of common stock;
- whether the recipient's responsibilities involve company-wide strategic decision-making and
- the compensation committee's subjective evaluation of the recipient's potential contribution to our future success.

As of the closing of this offering, we intend to grant shares of restricted stock under the 2009 Plan to the following named executive officers in the following amounts:

Name	Number of shares
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We anticipate that these restricted stock awards will generally vest at the rate of one-third per year of service following the grant date.

### Summary compensation table

The following table includes information concerning compensation paid to or earned by our named executive officers listed in the table for the fiscal year ended December 28, 2008.

Name and principal position(1)	Salary (\$)	Bonus(2) (\$)	Non-equity incentive plan compensation(3) (\$)	All other compensation(4) (\$)	Total (\$)
Wesley M. Batista(5) ..... President, Chief executive officer and director	1,126,395	□	□	84,437	1,210,832
Andr� Nogueira de Souza(6) ..... Chief financial officer	379,922	200,000	300,000	200,568	1,080,490
Iain Mars(7) ..... Head of Australia	229,641	□	850,514	218,208	1,298,363
Martin J. Dooley(8) ..... Head of Pork	406,010	518,750	300,000	14,110	1,238,870
H. Brent Eastwood(9) ..... Head of JBS Trading	259,615	□	275,000	160,994	695,609

(1) The principal position listed in the table for each named executive officer was such individual's title during fiscal 2008.

(2) Represents cash bonuses received by each of Messrs. Nogueira and Dooley, as described under "Compensation discussion and analysis" Additional cash bonuses" above.

(3) Represents annual incentive cash payments described in more detail under "Compensation discussion and analysis" Annual incentive cash payments" above.

(4) The following table includes information concerning amounts reported in the All other compensation column of the summary compensation table above.

Name and principal position	Relocation expenses (a) (\$)	Tax gross- up (b) (\$)	Contributions to retirement plan (c) (\$)	Company aircraft (d) (\$)	Company leased automobile (e) (\$)	Company leased residence (f) (\$)	Excess life insurance (g) (\$)	Total (\$)
Wesley M. Batista .....	65,448	□	□	18,989	□	□	□	84,837
Andr� Nogueira de Souza .....	200,000	□	□	□	□	□	568	200,568
Iain Mars .....	□	□	68,178	□	86,358	63,672	□	218,208
Martin J. Dooley .....	□	□	11,500	□	□	□	2,610	14,110
H. Brent Eastwood .....	148,754	12,240	□	□	□	□	□	160,994

The value of perquisites and other personal benefits and other compensation is based on the estimated incremental cost to us, for the following:

(a) reimbursement of relocation expenses,

(b) tax gross-up on reimbursement of relocation expenses for Mr. Eastwood,

(c) company contributions to 401(k) plan (or, in the case of Mr. Mars, to superannuation plan),

(d) personal use of company aircraft, the direct cost per flight hour as calculated from our records for company-owned aircraft or as billed by third parties for chartered aircraft,

(e) for company-leased automobiles, 100% of the lease cost, repairs, maintenance and fees,

(f) for personal use of the company-leased residence, the average daily cost of maintaining the residence multiplied by the number of days used for personal purposes, and

(g) for excess life insurance (i.e., having a face amount of coverage in excess of \$50,000), the amount of premiums paid by us, on behalf of the executive.

(5) Mr. Batista served as President and Chief Executive Officer from December 31, 2007 to December 28, 2008. Included in the salary above is salary in the amount of \$419,000 paid by JBS S.A. from December 31, 2007 to February 15, 2008.

- (6) As an employee of JBS S.A. in Brazil, Mr. Nogueira provided financial oversight for JBS S.A. from December 31, 2007 through September 30, 2008. On October 1, 2008, Mr. Nogueira transferred to JBS USA Holdings, Inc. and served as our Chief Financial Officer through December 28, 2008. Included in Mr. Nogueira's salary above is salary in the amount of \$263,000 paid by JBS S.A. from December 31, 2007 to September 30, 2008.
- (7) Mr. Mars served as the Head of Australia from December 31, 2007 to December 28, 2008. For purposes of computation, the exchange rate used was based on the calendar 2008 average U.S. dollar to Australian dollar exchange rate of .8369.
- (8) Mr. Dooley served as the Head of Pork from December 31, 2007 to December 28, 2008.
- (9) Mr. Eastwood served as the Head of JBS Trading from December 31, 2007 to December 28, 2008.

### Grants of plan-based awards

The following table includes information concerning grants of plan-based awards made to our named executive officers listed in the table during the fiscal year ended December 28, 2008.

Name and principal position	Estimated future payouts under non-equity incentive plan awards		
	Threshold(1) (\$)	Target (\$)	Maximum (\$)
Wesley M. Batista .....	N/A	N/A	N/A
Andr� Nogueira de Souza .....	150,000	300,000	N/A
Iain Mars .....	192,500	385,000	N/A
Martin J. Dooley .....	131,250	262,500	N/A
H. Brent Eastwood .....	137,500	275,000	N/A

- (1) There is no threshold with respect to the payout amount based on personal performance goals under our performance-based annual cash incentive program. As such, these amounts assume that a named executive officer met his personal performance goals and that the target payout based on personal performance is paid out. See "Compensation discussion and analysis" Annual incentive cash payments.

### Estimated payments upon termination or change of control.

On July 11, 2007, we entered into a retention agreement with Mr. Dooley. If Mr. Dooley's employment was terminated by us without cause on December 28, 2008, the last day of fiscal 2008, he would have received a cash severance payment in the amount of \$673,500 under this retention agreement. No other named executive officer would have received any payments or benefits in connection with termination of their employment or a change of control of us had the triggering event occurred on December 28, 2008.

### Director compensation

During fiscal 2008, our directors received no compensation for attending our board of directors' meetings. However, after the completion of this offering, we anticipate that we will institute a director compensation program for our non-employee directors which will compensate them for attending meetings in person or telephonically and serving on committees of the board of directors.

The following table includes information concerning compensation paid to or earned by our directors listed in the table for the fiscal year ended December 28, 2008.

Name and principal position	Fees earned or paid in cash (\$)	Non-equity incentive plan compensation (\$)	All other compensation(1) (\$)	Total (\$)
Jos� Batista J�nior .....	�	�	709,115	709,115
Director				
Joesley Mendon�a Batista .....	�	�	�	�
Director				

- (1) Mr. Jos  Batista J nior received the compensation reflected above for his services as an employee of JBS USA, LLC. This amount includes: \$646,150 paid as cash compensation, \$59,250 paid to reimburse relocation expenses and \$3,715 related to insurance premiums paid by us.

## 2009 stock incentive compensation plan

Prior to the closing of this offering, we intend to adopt the JBS USA, Inc. 2009 Stock Incentive Compensation Plan, or the "2009 Plan," which will become effective immediately prior to this offering. The 2009 Plan is intended to further our success by increasing the ownership interest of certain of our employees and directors in our company and to enhance our ability to attract and retain employees and directors. This is a summary of the 2009 Plan. You should read the text of the 2009 Plan filed as an exhibit to the registration statement of which this prospectus is part for a full statement of the terms and provisions of the 2009 Plan.

We may issue up to \_\_\_\_\_ shares of our common stock, subject to adjustment if particular capital changes affect the common stock, upon the exercise or settlement of stock options, stock appreciation rights ("SARs"), restricted stock awards, restricted stock units, performance unit awards, performance share awards, cash-based awards and other stock-based awards granted under the 2009 Plan. The shares of common stock that may be issued under the 2009 Plan may be either authorized and unissued shares or previously issued shares held as treasury stock.

A stock option is the right to purchase a specified number of shares of common stock in the future at a specified exercise price and subject to the other terms and conditions specified in the option agreement and the 2009 Plan. Any stock options granted under the 2009 Plan are either "incentive stock options," which may be eligible for special tax treatment under the Internal Revenue Code of 1986, or options other than incentive stock options (referred to as "nonqualified stock options"), as determined by the compensation committee and stated in the option agreement. The exercise price of each option granted under the 2009 Plan is equal to or greater than the fair market value of our common stock on the option grant date, with certain limited exceptions for options granted in exchange for other outstanding awards in connection with a corporate transaction. The exercise price of any stock options granted under the 2009 Plan may be paid in cash, a cashless broker-assisted exercise that complies with law, withholding of shares otherwise deliverable upon exercise or any other method permitted by law and approved by the compensation committee.

SARs may be granted under the 2009 Plan alone or together with specific stock options granted under the 2009 Plan. SARs are awards that, upon their exercise, give a participant the right to receive from us an amount equal to (1) the number of shares for which the SAR is exercised, multiplied by (2) the excess of the fair market value of a share of the common stock on the exercise date over the grant price of the SAR. The grant price of each SAR granted under the 2009 Plan is equal to or greater than the fair market value of our common stock on the SAR's grant date, with certain limited exceptions for SARs granted under the 2009 Plan in exchange for other outstanding awards in connection with a corporate transaction. A SAR may be settled in cash, shares or a combination of cash and shares, as determined by the compensation committee. If an option and a SAR are granted in tandem, the option and the SAR may become exercisable and will terminate at the same time, but the holder may exercise only the option or the SAR, but not both, for a given number of shares.

Restricted stock awards are shares of common stock that are awarded to a participant subject to the satisfaction of terms and conditions established by the compensation committee. Until such time as the applicable restrictions lapse, shares of restricted stock are subject to forfeiture and may not be sold, assigned, pledged or otherwise disposed of by the participant who holds those shares. Restricted stock units are denominated in units of shares of common stock, except that no shares are actually issued to the participant on the grant date. When a restricted stock unit award vests, the participant is entitled to receive shares of common stock, a cash payment based on the value of shares of common stock or a combination of shares and cash.

Performance units, performance shares and cash-based awards entitle the recipient to receive shares of common stock or a cash payment if performance goals and other conditions specified by the compensation committee are attained. Other stock-based awards are stock-based or stock-related awards payable in common stock or cash on terms and conditions set by the compensation committee and may include a grant or sale of unrestricted shares of common stock. The compensation committee may provide for the payment of dividend equivalents with respect to shares of common stock subject to an award, such as restricted stock units, that have not actually been issued under that award.

The compensation committee administers the 2009 Plan. The board of directors may, subject to any legal limitations, exercise any powers or duties of the compensation committee concerning the 2009 Plan. The compensation committee will select eligible employees, directors and/or consultants of us and our subsidiaries or affiliates to receive awards under the 2009 Plan and will determine the sizes and types of awards, the terms and conditions of awards and the form and content of the award agreements representing awards.

Holders of options, SARs, unvested restricted stock and other awards may not transfer those awards, unless they die or, except in the case of incentive stock options, the compensation committee determines otherwise.

A change of control of us (as defined in the 2009 Plan) will have no effect on outstanding awards under the 2009 Plan that the board of directors or the compensation committee determines will be honored or assumed or replaced with new rights by a new employer so long as any such alternative award is substantially equivalent to the outstanding award and has certain terms that appropriately protect the holder of the award, as determined under criteria set forth in the 2009 Plan. If the board of directors or the compensation committee does not make this determination with respect to any outstanding awards, then (a) the awards will fully vest and, if applicable, become fully exercisable and will be settled in cash and/or publicly traded securities of the new employer, generally based on the fair market value of our common stock on the change of control date, in the case of options or SARs, reduced by the exercise or grant price of the option or SAR, or the price per share offered for our common stock in the change of control transaction, or, in some cases, the highest fair market value of the common stock during the 30 trading days preceding the change of control date, in the case of restricted stock, restricted stock units and any other awards denominated in shares, (b) the target performance goals applicable to any outstanding awards will be deemed to be fully attained, unless actual performance exceeds the target, in which case actual performance will be used, for the entire performance period then outstanding; and (c) the board of directors or the compensation committee may otherwise adjust or settle outstanding awards as it deems appropriate, consistent with the plan's purposes.

In the event of a change in our capital structure or a corporate transaction, the compensation committee or the board of directors will make substitutions or adjustments that it deems appropriate and equitable to the securities available under the 2009 Incentive Plan and outstanding awards, the exercise or other prices of securities subject to outstanding awards and other terms and conditions of outstanding awards, such as cancellation of outstanding awards in exchange for payments of cash and/or property or substitution of stock of another company for shares of our common stock subject to outstanding awards. The compensation committee will also make appropriate adjustments and modifications in the terms of any outstanding awards to reflect, or related to, any such events, adjustments, substitutions or changes, including modifications of performance goals and changes in the length of performance periods.

Subject to particular limitations specified in the 2009 Plan, the board of directors may amend or terminate the 2009 Plan, and the compensation committee may amend awards outstanding under the 2009 Plan. The 2009 Plan will continue in effect until all shares of the common stock available under the 2009 Plan are delivered and all restrictions on those shares have lapsed, unless the 2009 Plan is terminated earlier by the board of directors. No awards may be granted under the 2009 Plan on or after the tenth anniversary of the date of this offering.

# Certain relationships and related party transactions

## Relationship with JBS S.A.

### *Controlling interest*

Before this offering, all of our outstanding shares of common stock were owned by JBS Hungary Holdings Kft., the selling stockholder and a wholly owned, indirect subsidiary of JBS S.A. After completion of this offering, the selling stockholder will own approximately 50.1% of the outstanding shares of our common stock, or 50.1% if the international underwriters exercise their over-allotment option in full. JBS S.A. has advised us that its current intent is to continue to retain, through the selling stockholder, at least 50.1% of the equity interest in us following this offering for the foreseeable future. The selling stockholder is not subject to any contractual obligation to retain its controlling interest in us, except that the selling stockholder has agreed, subject to exceptions described in "Underwriting," not to sell or otherwise dispose of any of our shares of common stock for a period of 180 days after the date of this prospectus without the prior written consent of the representatives of the underwriters. Any shares of common stock issued pursuant to the international underwriters' over-allotment option will increase the total number of shares outstanding after this offering.

As our controlling stockholder after this offering, JBS S.A., through the selling stockholder, will continue to exercise significant influence over our business policies and affairs, including the composition of our board of directors and any action requiring the approval of our stockholders. See "Risk factors" We will be a "controlled company" within the meaning of the NYSE rules, and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies and "We are controlled by JBS S.A., which is a publicly traded company in Brazil, whose interest in our business may be different than yours."

In the subsection entitled "Business" Description of business segments" Beef segment" Global exports," we describe the reasons why we do not believe JBS S.A. is currently a significant competitor of our Beef segment.

The following is a description of transactions since July 11, 2007 in which we have been a participant, in which the amount involved exceeded or will exceed \$120,000 and in which any of our directors, executive officers, beneficial holders of more than 5% of our capital stock, immediate family members or entities affiliated with them, had or will have a direct or indirect material interest.

We have not included a description of related party transactions prior to July 11, 2007 because the related party transactions that took place prior to this date involved our predecessor company and its affiliates, and we do not believe this information is meaningful to investors.

### *Guarantee of JBS S.A. debt*

We, together with our subsidiaries, JBS USA, LLC and Swift Beef Company, guarantee on an unsecured basis, \$300.0 million of the 10.5% notes due 2016 issued by JBS S.A. as a result of a covenant contained in the indenture governing these notes. Additional subsidiaries of JBS Holdings, Inc. may be required to guarantee these notes of JBS S.A. See "External sources of liquidity and description of indebtedness" Guarantee of 10.50% senior notes due 2016 of JBS S.A."

### *Our ability to use JBS S.A.'s brokerage account in Brazil*

We and JBS S.A. are party to a financial agreement pursuant to which JBS S.A. granted us the ability to use one of JBS S.A.'s brokerage accounts in Brazil, enabling us to take a currency position in a market we cannot reasonably access from the United States in a timely manner. Under the agreement, the outstanding amounts of the intercompany loan agreements executed between the parties will be increased to reflect any losses and will be offset by any gains. In case of loss, the amounts of such loss shall be increased to the outstanding amounts of such intercompany loans.

## Intercompany loans owed by JBS USA Holdings, Inc. to a subsidiary of JBS S.A.

As of March 29, 2009, we owed an aggregate of \$658.6 million under various intercompany loans from JBS S.A., which were subsequently assigned to JBS HU Liquidity Management LLC (Hungary), a wholly owned, indirect subsidiary of JBS S.A. The proceeds of these intercompany loans were used to fund our operations and the Tasman Acquisition and the JBS Packerland Acquisition. On April 27, 2009, these intercompany loan agreements were consolidated into one loan agreement, and the maturity dates of the principal of the intercompany loans was extended to April 18, 2019, and the interest rate was changed to 12% per annum. The net proceeds of the offering and sale of our 11.625% senior unsecured notes due 2014 (other than \$100.0 million) were applied to the repayment of accrued interest and a portion of the principal on these intercompany loans. As of May 31, 2009, we owed an aggregate principal amount of \$133.0 million under the consolidated intercompany loan agreement. In addition, we recently entered into an additional intercompany term loan agreement in the aggregate principal amount of \$6.0 million under the same terms as the consolidated intercompany loan agreement.

## Arrangements with J&F Oklahoma

*Cattle supply and feeding agreement.* Five Rivers is party to a cattle supply and feeding agreement with our affiliate J&F Oklahoma Holdings Inc., or J&F Oklahoma. J&F Oklahoma is a wholly owned subsidiary of J&F Participacoes S.A., which is owned in equal shares by the six children of Jos  Batista Sobrinho (the founder of JBS S.A.) and Mr. Sobrinho. Pursuant to the agreement, Five Rivers feeds and takes care of cattle owned by J&F Oklahoma. J&F Oklahoma pays Five Rivers for the cost of feed and medicine at cost plus a yardage fee on a per head per day basis. Beginning on June 23, 2009 or such earlier date on which Five Rivers' feedlots are at least 85% full of cattle and ending on October 23, 2011, J&F Oklahoma agrees to maintain sufficient cattle on Five Rivers' feedlots so that such feedlots are at least 85% full of cattle at all times. The agreement commenced on October 23, 2008 and continues until the last of the cattle on Five Rivers' feedlots as of October 23, 2011 are shipped to J&F Oklahoma, a packer or another third party.

*Cattle purchase and sale agreement.* JBS USA, LLC is party to a cattle purchase and sale agreement with J&F Oklahoma. Under this agreement, J&F Oklahoma agrees to sell to JBS USA, LLC, and JBS USA, LLC agrees to purchase from J&F Oklahoma, at least 500,000 cattle during each year from 2009 through 2011. The price paid by JBS USA, LLC is determined pursuant to JBS USA, LLC's pricing grid as in effect on the date of delivery. The grid used for J&F Oklahoma is identical to the grid used for unrelated third parties. If the cattle sold by J&F Oklahoma in a quarter result in a breakeven loss (selling price below accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA, LLC will reimburse 40% of the average per head breakeven loss incurred by J&F Oklahoma on up to 125,000 head delivered to JBS USA, LLC in that quarter. If the cattle sold by J&F Oklahoma in a quarter result in a breakeven gain (selling price above the accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA, LLC will receive from J&F Oklahoma an amount of cash equal to 40% of that per head gain on up to 125,000 head delivered to JBS USA, LLC in that quarter.

*Guarantee of J&F Oklahoma revolving credit facility.* J&F Oklahoma has a \$600.0 million secured revolving credit facility with a commercial bank. Its parent company, J&F Participacoes S.A., has entered into a keepwell agreement with J&F Oklahoma whereby it will make contributions to J&F Oklahoma if J&F Oklahoma is not in compliance with its financial covenants under this credit facility. If J&F Oklahoma defaults on its obligations under this credit facility and such default is not cured by J&F Participacoes S.A. under the keepwell agreement, Five Rivers is obligated to pay up to \$250.0 million of the obligations under this credit facility. This credit facility is available for revolving loans and letters of credit. Borrowings under this credit facility accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.00%, and interest is payable at least quarterly. Commitment fees of 0.45% per annum accrue on unused commitments. This credit facility matures on October 7, 2011. This credit facility and the guarantees thereof are secured by the assets of J&F Oklahoma and, in the case of Five Rivers, they are secured by and limited to the lesser of \$250 million or the net assets of Five Rivers, including loans made pursuant to the credit facility discussed below. This credit facility is used to finance the procurement of cattle by J&F Oklahoma, which are then fed in the Five Rivers feedlots pursuant to the cattle supply and feeding agreement described above. The finished cattle are sold to JBS USA, LLC pursuant to the cattle purchase and sale agreement described above.

*Credit facility to J&F Oklahoma.* Five Rivers is party to an agreement with J&F Oklahoma, pursuant to which Five Rivers has agreed to loan up to \$200.0 million in revolving loans to J&F Oklahoma. The loans are used by J&F Oklahoma to acquire feeder animals which are placed in Five Rivers feedlots for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.00%, and interest is payable at least quarterly. This credit facility matures on October 7, 2011. During the period from October 23, 2008 (when Five Rivers was acquired) through December 28, 2008, average borrowings were approximately \$131.0 million, and total interest accrued was approximately \$663,000 and was recognized in interest income on the statement of operations. As of March 29, 2009, the aggregate outstanding balance of the loan was \$171.4 million, including accrued interest of \$40,000.

## Loan to executive officer

On April 24, 2009, we made a loan to an executive officer in the amount of \$235,000. This loan was made as a form of retention bonus. Interest on this loan accrues at a rate of 5.25% per annum and is payable annually. The principal amount of this loan is payable in four equal annual installments, beginning on April 23, 2010. We have agreed to forgive the principal and interest on this loan contingent upon the executive officer remaining employed by us for a specified period of time, and these amounts will be accounted for as taxable income to the executive officer. In addition, if the executive officer ceases to be our employee under certain circumstances, including termination by us without cause, all remaining amounts under this loan will be forgiven. If the executive officer is terminated for cause, the loan will be accelerated and the executive officer must pay accrued and unpaid interest.

## **Other related party transactions**

We enter into transactions in the normal course of our business with affiliates of JBS S.A. Sales to affiliated companies included in the net sales in the statement of operations for the thirteen weeks ended March 30, 2008 and March 29, 2009 were \$5.4 million and \$109.4 million, respectively. These transactions primarily consist of sales of our products to JBS S.A. and its subsidiaries (other than ourselves) in individually negotiated transactions at prevailing market prices. Amounts owed to us by affiliates as of March 30, 2008 and March 29, 2009 totaled approximately \$5.8 million and \$219.4 million, respectively.

Purchases from affiliated companies included in the statement of operations for the thirteen weeks ended March 30, 2008 and March 29, 2009 were \$0.4 million and \$16,600, respectively. No amounts were due to affiliates by us at March 29, 2009 related to these purchases.

We had a \$50,000 receivable from an executive officer at March 29, 2009. On April 28, 2009, the executive officer repaid the amount in full.

For the fiscal quarter ended March 30, 2008, we recorded \$22,000 of rental income related to real property that we leased to two of our executive officers. At March 29, 2009, we had no rental income related to these real estate transactions.

## **Policies and procedures for related party transactions**

Our audit committee is expected to review and approve in advance any related party transaction. All of our directors, officers and employees will be required to report to the audit committee any related party transaction prior to entering into the transaction. See "Management Committees of the board of directors" Audit committee.

It is our intention to ensure that all future transactions between us and our officers, directors and principal stockholders and their affiliates are approved by the audit committee of our board of directors, and are on terms no less favorable to us than those that we could obtain from unaffiliated third parties.



## Principal and selling stockholder

Before this offering, all of the outstanding shares of our common stock were owned beneficially and of record by JBS Hungary Holdings Kft., the selling stockholder and a wholly owned, indirect subsidiary of JBS S.A. The following table sets forth information regarding beneficial ownership of our common stock as of March 29, 2009, and as adjusted to reflect the shares of common stock to be issued and sold in this offering assuming no exercise of the international underwriters' and the Brazilian underwriters' option to purchase additional shares, by:

- each person or group of affiliated persons known by us to be the beneficial owner of more than 5% of our common stock;
- each of our named executive officers;
- each of our directors;
- all executive officers and directors as a group; and
- our selling stockholder.

Beneficial ownership in this table is determined in accordance with the rules of the SEC and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, the number of shares of common stock deemed outstanding includes shares issuable upon exercise of options held by the respective person or group that may be exercised within 60 days after March 29, 2009. For purposes of calculating each person's or group's percentage ownership, stock options exercisable within 60 days after March 29, 2009 are included for that person or group but not the stock options of any other person or group. This table does not reflect any shares of common stock that our directors and executive officers may purchase in this offering, including through the directed share program described in "Underwriting"

Percentage of beneficial ownership is based on 100 shares of common stock outstanding as of March 29, 2009 (without giving effect to the stock split to occur immediately prior to completion of this offering) and \_\_\_\_\_ shares of common stock outstanding after completion of this offering.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over the shares listed, except for those jointly owned with that person's spouse. Beneficial ownership representing less than 1% is denoted with an asterisk (\*).

The address of each director and executive officer shown in the table below is c/o JBS USA Holdings, Inc., 1770 Promontory Circle, Greeley, Colorado 80634.

Name and address of beneficial owner	Shares of common stock beneficially owned before this offering		Number of shares being offered	Shares of common stock beneficially owned after this offering		Percent of class beneficially owned assuming exercise of the international underwriters' over-allotment option
	Number	Percentage		Number	Percentage	
<b>Principal shareholder</b>						
JBS S.A.(1) .....	100	100%				
<b>Directors and named executive officers</b>						
Wesley Mendonça Batista(1) .....						
Joesley Mendonça Batista(1).....						
José Batista Júnior(1) .....						
André Nogueira de Souza.....						
Iain Mars.....						
Martin J. Dooley .....						
H. Brent Eastwood .....						
All directors and executive officers as a group.....						

- (1) We are a wholly owned subsidiary of JBS Hungary Holdings Kft., the selling stockholder and a wholly owned, indirect subsidiary of JBS S.A. JBS S.A. is ultimately controlled by the Batista family, which is comprised of Jos  Batista Sobrinho, the founder of JBS S.A., Flora Mendon a Batista, and their six children, Jos  Batista J nior, Val ria Batista Mendon a Ramos, Vanessa Mendon a Batista, Wesley Mendon a Batista, Joesley Mendon a Batista and Vivianne Mendon a Batista. The Batista family indirectly owns 100.0% of the issued and outstanding shares of J F Participa es S.A., a Brazilian corporation which owns 44.0% of the outstanding capital of JBS S.A., and, except for Mr. Jos  Batista Sobrinho and Mrs. Flora Mendon a Batista, directly owns 100% of the equity interests in ZMF Fundo de Investimento em Participa es, a Brazilian investment fund which owns 6.1% of the outstanding capital of JBS S.A. Wesley Mendon a Batista, Joesley Mendon a Batista and Jos  Batista J nior are members of our board of directors. Through J F Participa es S.A. and ZMF Fundo de Investimento em Participa es, Wesley Mendon a Batista, Joesley Mendon a Batista and Jos  Batista J nior each beneficially own \_\_\_\_\_ shares of our common stock.

The following table sets forth the principal holders of JBS S.A.'s outstanding common shares and their respective shareholding, as of March 29, 2009:

Shareholders	Address	As of March 29, 2009	
		Number of Common Shares	Percentage
J�F Participa�es S.A.(a) .....	Av. Brigadeiro Faria Lima, 2,391, 2nd Floor 01452-000, S�o Paulo, SP Brazil	632,781,603	44.0%
ZMF Fundo de Investimento em Participa�es(b) .....	Praia de Botafogo, 501, 5th Floor Rio de Janeiro, RJ Brazil	87,903,348	6.1%
PROT FIP(c).....	Ave. Presidente Wilson, 231 11th Floor Rio de Janeiro, RJ Brazil	205,365,101	14.3%
BNDESPAR(d) .....	Av. Rep�blica de Chile, 100 20031-917, Rio de Janeiro, RJ Brazil	186,891,800	13.0%
Other public minority shareholders (as a group).....		287,996,774	20.0%
Treasury shares .....		37,140,300	2.6%
<b>Total</b> .....		<b>1,438,078,926</b>	<b>100.0%</b>

(a) J F Participa es S.A. is a Brazilian corporation which owns 44.0% of the total capital of JBS S.A. The members of the Batista family (Jos  Batista Sobrinho and Flora Mendon a Batista, and their six children Jos  Batista J nior, Val ria Batista Mendon a Ramos, Vanessa Mendon a Batista, Wesley Mendon a Batista, Joesley Mendon a Batista and Vivianne Mendon a Batista) indirectly, through several holding companies, own 100.0% of the issued and outstanding shares of J F Participa es S.A.

(b) ZMF Fundo de Investimento em Participa es is a Brazilian investment fund which owns 6.1% of the total capital of JBS S.A. The Batista family (except for Mr. Jos  Batista Sobrinho and Mrs. Flora Mendon a Batista) owns 100% of the equity interests in ZMF Fundo de Investimento em Participa es.

(c) PROT Fundo de Investimento em Participa es is a Brazilian equity investment fund.

(d) BNDES Participa es S.A. BNDESPAR, is a subsidiary of Banco Nacional de Desenvolvimento Econ mico e Social, Brazil's national development bank. BNDESPAR invests, and owns equity interests, in Brazilian companies, including JBS S.A.

There are no current arrangements which will result in a change of control.

## JBS S.A. investment and shareholders' agreements

On March 18, 2008, BNDES Participa es S.A., or BNDESPAR, PROT  Fundo de Investimento em Participa es, or PROT, J F Participa es S.A., or J F, and ZMF Fundo de Investimento em Participa es, or ZMF, entered into an investment agreement with JBS S.A. as intervening and consenting party, or the JBS investment agreement. Pursuant to the JBS investment agreement, BNDESPAR, PROT, J F and ZMF agreed to make capital contributions to JBS S.A. in the amount of up to R 2,550.0 million. The terms of the investment agreement also required PROT, J F and ZMF to enter into a shareholders' agreement to govern their relationship as shareholders of JBS S.A. The parties entered into this shareholders' agreement on July 8, 2008. Under the terms of the shareholders' agreement, each of the parties has agreed, among other things, that without the prior approval of PROT, J F and ZMF will not exercise their power to vote to:

- modify the bylaws of JBS S.A. to make the permanent audit committee of JBS S.A. non-permanent;
- modify the bylaws of JBS S.A. to remove the provisions regarding the disclosure and availability of related party contracts, shareholders' agreements or stock option plans;
- restrict in any way PROT's right to elect and maintain one member on the board of directors for as long as PROT holds greater than 10% of the capital stock of JBS S.A.; and
- incur additional indebtedness in the event Net Debt/EBITDA would be greater than a specified level.

# Description of capital stock

## General

Upon the closing of this offering, our authorized capital stock will consist of \_\_\_\_\_ shares of common stock, par value \$0.01 per share, and \_\_\_\_\_ shares of undesignated preferred stock, par value \$0.01 per share. Immediately following the completion of this offering, an aggregate of \_\_\_\_\_ shares of common stock will be issued and outstanding and no shares of preferred stock will be issued and outstanding. As of the date of this prospectus, JBS Hungary Holdings Kft., the selling stockholder, was the sole record holder of our common stock. All outstanding shares of our common stock will be legally issued, fully paid and non-assessable.

The following description of the material provisions of our capital stock and our amended and restated certificate of incorporation, amended and restated bylaws and other agreements with and among our stockholders is only a summary, does not purport to be complete and is qualified by applicable law and the full provisions of our amended and restated certificate of incorporation, amended and restated bylaws and other agreements. You should refer to our amended and restated certificate of incorporation, amended and restated bylaws and related agreements as in effect upon the closing of this offering, which will be included as exhibits to the registration statement of which this prospectus is a part.

## Common stock

**Voting.** The holders of our common stock are entitled to one vote for each outstanding share of common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. Stockholders are not entitled to vote cumulatively for the election of directors.

**Dividend rights.** Subject to the dividend rights of the holders of any outstanding series of preferred stock, holders of our common stock are entitled to receive ratably such dividends and other distributions of cash or any other right or property as may be declared by our board of directors out of our assets or funds legally available for such dividends or distributions. See [Dividend policy](#).

**Liquidation rights.** In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our common stock are entitled to share ratably in our assets that are legally available for distribution to stockholders after payment of liabilities. If we have any preferred stock outstanding at such time, holders of the preferred stock may be entitled to distribution and/or liquidation preferences. In either such case, we must pay the applicable distribution to the holders of our preferred stock before we may pay distributions to the holders of our common stock.

## Undesignated preferred stock

Our amended and restated certificate of incorporation will authorize our board of directors, subject to limitations prescribed by law, to issue up to \_\_\_\_\_ shares of undesignated preferred stock in one or more series without further stockholder approval. The board will have discretion to determine the rights, preferences, privileges and restrictions of, including, without limitation, voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of, and to fix the number of shares of, each series of our preferred stock.

## Anti-takeover effects of Delaware law

Upon the completion of this offering, we will be subject to Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- prior to that date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by excluding employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to that date, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66<sup>2/3</sup>% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. Section 203 defines "business combination" to include: (1) any merger or consolidation involving the corporation and the interested stockholder; (2) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder; (3) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (4) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (5) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

A Delaware corporation may opt out of Section 203 either by an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. We have not opted out, and do not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change of control attempts and, accordingly, may discourage attempts to acquire us.

## **Anti-takeover effects of our amended and restated certificate of incorporation and bylaw provisions**

Our amended and restated certificate of incorporation and amended and restated bylaws will, upon the closing of this offering, contain some provisions that may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might deem to be in the stockholder's best interest. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

*Board composition and filling vacancies.* We will have a classified board of directors. See "Management" Board composition after this offering. Accordingly, it will take at least two annual meetings of stockholders to elect a majority of the board of directors given our classified board. As a result, it may discourage third-party proxy contests, tender offers or attempts to obtain control of us.

Our amended and restated bylaws will provide that, subject to the rights, if any, of holders of preferred stock, directors may be removed only for cause by the affirmative vote of the holders of a majority of the voting power of our outstanding shares of common stock entitled to vote. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of our board, may only be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum.

*Special meetings of stockholders.* Our amended and restated certificate of incorporation and amended and restated bylaws will provide that a special meeting of stockholders may be called only by the chairman of the board of directors or pursuant to a resolution adopted by the affirmative vote of the majority of the total number of directors then in office. Notwithstanding the foregoing, for so long as JBS S.A. or any of its subsidiaries owns at least 50% of our outstanding shares of common stock, JBS S.A. or such subsidiary shall have the right to call a special meeting of stockholders.

*Supermajority voting.* In order to effect certain amendments to our amended and restated certificate of incorporation, our amended and restated certificate of incorporation will require first the approval of a majority of our board of directors pursuant to a resolution adopted by the directors then in office, in accordance with our amended and restated bylaws, and thereafter the approval by the holders of at least 66<sup>2/3</sup>% of our then outstanding shares of common stock. Subject to the provisions of our amended and restated certificate of incorporation, our amended and restated bylaws will expressly authorize our board of directors to make, alter or repeal our bylaws without further stockholder action. Our amended and restated bylaws may also be amended by the holders of 66<sup>2/3</sup>% of our then outstanding shares of common stock.

*No stockholder action by written consent.* Our amended and restated certificate of incorporation and amended and restated bylaws will provide that an action required or permitted to be taken at any annual or special meeting of our stockholders may only be taken at a duly called annual or special meeting of stockholders. This provision prevents stockholders from initiating or effecting any action by written consent, and thereby taking actions opposed by the board. Notwithstanding the foregoing, for so long as JBS S.A. or any of its subsidiaries owns at least 50% of our outstanding shares of common stock, our stockholders will be permitted to take action by written consent.

*Requirements for advance notification of stockholder nominations and proposals.* Our amended and restated bylaws will contain advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors.

*Undesignated preferred stock.* The authorization of undesignated preferred stock will make it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company.

The foregoing provisions of our amended and restated certificate of incorporation and our amended and restated bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

### **Limitations of director liability and indemnification of directors, officers and employees**

As permitted by Delaware law, provisions in our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect at the closing of this offering will limit or eliminate the personal liability of our directors. Consequently, directors will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies, such as an injunction or rescission.

Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon the closing of this offering will also require us to indemnify our directors and officers to the fullest extent permitted by Delaware law and, as described under "Certain relationships and related party transactions," we have entered into indemnification agreements with each of our directors and officers.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the indemnification agreements and the insurance are necessary to attract and retain talented and experienced directors and officers.

At present, there is no pending litigation or proceeding involving any of our directors or officers where indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

### **New York Stock Exchange and São Paulo Stock Exchange**

We intend to apply to have our common stock listed on The New York Stock Exchange under the symbol JBS.We expect to apply to have the BDRs listed on the São Paulo Stock Exchange under the symbol  .

### **Transfer agent and registrar**

We expect that the transfer agent and registrar for our shares of common stock will be \_\_\_\_\_.

## Shares eligible for future sale

Prior to this offering, there has not been any public market for our common stock, and we make no prediction as to the effect, if any, that market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. Nevertheless, sales of substantial amounts of common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of common stock and could impair our future ability to raise capital through the sale of equity securities.

Upon the completion of this offering, we will have an aggregate of \_\_\_\_\_ shares of common stock outstanding, assuming no exercise of the international underwriters' and the Brazilian underwriters' over-allotment option, or an aggregate of \_\_\_\_\_ shares of common stock outstanding, assuming full exercise of the international underwriters' over-allotment option. Of the outstanding shares, all of the shares sold in this offering, including any additional shares sold upon exercise of the international underwriters' and Brazilian underwriters' option to purchase additional shares, will be freely tradable, except that any shares purchased by affiliates (as that term is defined in Rule 144 under the Securities Act) may only be sold in compliance with the limitations described below. The remaining \_\_\_\_\_ shares of common stock outstanding after this offering will be deemed restricted securities as defined in Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or Rule 701, promulgated under the Securities Act, which rules are summarized below. Subject to the lock-up agreements described below, shares held by our affiliates that are not restricted securities may be sold subject to compliance with Rule 144 of the Securities Act without regard to the prescribed one-year holding period under Rule 144.

### Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person is entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described below, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- (i) 1% of the number of shares of common stock then outstanding, which will equal approximately \_\_\_\_\_ shares immediately after this offering; or
- (ii) the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

### Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required to wait until 90 days after the date of this prospectus before selling those shares pursuant to Rule 701.

## Directed share program

At our request, the underwriters have reserved up to [ ] of the shares of common stock for sale at the initial public offering price to persons who are directors, officers or employees, or who are otherwise associated with us, through a directed share program. The sales will be made by [ ] through a directed share program. The number of shares of common stock available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. We do not know if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they do make will reduce the number of shares available to the general public. These persons must commit to purchase by [ ] a.m. on the day following the date of this prospectus. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares. Except for certain of our officers and directors who have entered into lock-up agreements as contemplated under [ ] Lock-up agreements [ ] below, each person buying shares through the directed share program has agreed that, for a period of [ ] calendar days from the date of this prospectus, he or she will not, without the prior written consent of [ ], offer, pledge, announce the intention to sell, grant any option, right or warrant to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into our or exchangeable for our common stock, enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, or make any demand for or exercise any right with respect to the registration of any shares or any security convertible into or exercisable or exchangeable for shares of common stock. For officers and directors purchasing shares of common stock through the directed share program, the lock-up agreements contemplated under [ ] Lock-up agreements [ ] below shall govern with respect to their purchases.

## Lock-up agreements

We, the selling stockholder and our executive officers and directors have agreed with the underwriters prior to the commencement of this offering that we and each of these persons or entities, with limited exceptions, for a period of 180 days after the date of this prospectus, may not, without the prior written consent of the representatives, among other things:

- (1) offer, pledge, announce the intention to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock (including, without limitation, BDRs representing such shares, common stock or BDRs that may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant), or
- (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, including BDRs representing such shares,

whether any such transaction described in bullet points (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise. The 180-day restricted period described above will be extended if during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs or if prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the representatives waive, in writing, such extension.

# Certain material United States federal income and estate tax considerations for non-U.S. holders

The following is a general discussion of material U.S. federal income and estate tax considerations for a non-U.S. holder (as defined below) regarding the acquisition, ownership and disposition of shares of our common stock, including BDRs representing such shares, as of the date hereof. This discussion only applies to non-U.S. holders who purchase and hold our common stock or BDRs as a capital asset for U.S. federal income tax purposes (generally property held for investment). This discussion does not describe all of the tax consequences that may be relevant to a non-U.S. holder in light of its particular circumstances.

For purposes of this discussion, a non-U.S. holder is any beneficial owner of 5% or less of shares of our common stock, including any beneficial owner of BDRs representing 5% or less of such shares, that is not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- a partnership or other entity taxable as a partnership for U.S. federal income tax purposes;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended, or the Code, and Treasury regulations, rulings and judicial decisions as of the date hereof. These authorities may change, perhaps retroactively, which could result in U.S. federal income and estate tax consequences different from those summarized below. This discussion does not address all aspects of U.S. federal income and estate taxes and does not describe any foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their particular circumstances. In addition, this discussion does not describe the U.S. federal income and estate tax consequences applicable to a non-U.S. holder who is subject to special treatment under U.S. federal income tax laws (including a United States expatriate, a controlled foreign corporation, a passive foreign investment company, a corporation that accumulates earnings to avoid U.S. federal income tax, a foreign tax-exempt organization, a financial institution, a broker or dealer in securities, an insurance company, a regulated investment company, a real estate investment trust, a person who holds our common stock or BDRs as part of a hedging or conversion transaction or as part of a short-sale or straddle, a former U.S. citizen or resident or a pass-through entity or an investor in a pass-through entity). We cannot assure you that a change in law will not significantly alter the tax considerations that we describe in this discussion.

If a partnership holds shares of our common stock, including BDRs representing such shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Any partner of a partnership holding shares of our common stock, including BDRs representing such shares, should consult its own tax advisors.

**You should consult your tax advisor in determining the tax consequences to you of purchasing, owning and disposing of our common stock or BDRs, including the application to your particular situation of the U.S. federal income and estate tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.**

## Ownership of BDRs in general

For U.S. federal income tax purposes, if you are a holder of BDRs, you generally will be treated as the owner of our common stock represented by such BDRs.



## Dividends

In general, any distributions we make to you with respect to your shares of common stock or your BDRs representing such shares that constitute dividends for U.S. federal income tax purposes will be subject to U.S. withholding tax at a rate of 30% of the gross amount, unless you are eligible for a reduced rate of withholding tax under an applicable income tax treaty and (a) you provide an Internal Revenue Service, or IRS, Form W-8BEN (or the appropriate successor form) to us or our paying agent certifying under penalty of perjury that you are not a United States person as defined under the Code and you are entitled to benefits under the treaty or (b) you satisfy the relevant certification requirements of applicable Treasury regulations, if our common stock or BDRs are held through certain foreign intermediaries. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities rather than corporations or individuals. A distribution will constitute a dividend for U.S. federal income tax purposes to the extent of our current or accumulated earnings and profits as determined under the U.S. federal income tax principles. Any distribution not constituting a dividend will be treated first as reducing your basis in your shares of common stock or your BDRs representing such shares and, to the extent it exceeds your basis, as capital gain.

Dividends we pay to you that are effectively connected with your conduct of a trade or business within the United States (and, if certain income tax treaties apply, are attributable to a U.S. permanent establishment maintained by you) generally will not be subject to U.S. withholding tax if you provide us or our paying agent with a duly completed and executed IRS Form W-8ECI, or successor form. Instead, such dividends generally will be subject to U.S. federal income tax, net of certain deductions, at the same graduated individual or corporate rates applicable to a United States person as defined under the Code. In addition, if you are a corporation, effectively connected income may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty). A non-U.S. holder of shares of our common stock, including BDRs representing such shares, eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

## Gain on sale or other disposition of common stock or BDRs

In general, a non-U.S. holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of shares of our common stock, including BDRs representing such shares, unless:

- the gain is effectively connected with a trade or business carried on by the non-U.S. holder within the United States and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment of the non-U.S. holder maintained in the United States, in which case a non-U.S. holder will be subject to U.S. federal income tax on any gain realized upon the sale or other disposition on a net income basis, in the same manner as if the non-U.S. holder were a resident of the United States (and, possibly, the non-U.S. holder will be subject to additional branch profits tax discussed above in the case of a non-U.S. holder that is a corporation);
- the non-U.S. holder is an individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met, in which case a non-U.S. holder will be subject to a flat 30% tax on any gain realized upon the sale or other disposition, which tax may be offset by U.S. source capital losses (even though the individual is not considered a resident of the United States); or
- the non-U.S. holder owns more than 5% of shares of our common stock, including BDRs representing such shares, and we are or have been a United States real property holding corporation for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition and the non-U.S. holder's holding period.

## Federal estate taxes

Common stock or BDRs owned or treated as owned by an individual who is not a citizen or resident (as defined for U.S. federal estate tax purposes) of the United States at the time of his or her death will be included in the individual's gross estate for U.S. federal estate tax purposes, and therefore may be subject to U.S. federal estate tax, unless an applicable tax treaty provides otherwise.

## **Backup withholding, information reporting and other reporting requirements**

Generally, we must report annually to the IRS, and to each non-U.S. holder, the amount of dividends paid to such non-U.S. holder, the name and address of the recipient, and the amount, if any, of tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of these information returns may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable tax treaty. A non-U.S. holder may have to comply with certification procedures to establish that the holder is not a United States person as defined under the Code in order to avoid additional information reporting and backup withholding tax requirements, which may apply to dividends that we pay and the proceeds of a sale of our common stock or BDRs within the United States or conducted through certain U.S.-related financial intermediaries. The certification procedures required to claim a reduced rate of withholding under a treaty will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

**The foregoing discussion of certain material U.S. federal income and estate tax considerations is for general information only and is not tax advice. Accordingly, each prospective non-U.S. holder of shares of our common stock, including BDRs representing such shares, should consult his, her or its own tax advisor with respect to the federal, state, local and foreign tax consequences of the acquisition, ownership and disposition of common stock or BDRs.**

# Underwriting

We and the selling stockholder are offering shares of common stock through a number of international underwriters. J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as the representatives of the international underwriters and as joint bookrunners for the international offering. We and the selling stockholder have entered into an international underwriting agreement with the international underwriters. Subject to the terms and conditions of the international underwriting agreement, we and the selling stockholder have agreed to sell to the international underwriters, and each international underwriter has agreed to purchase, at the public offering price less the underwriting discount set forth on the cover page of this prospectus, the number of shares of our common stock listed next to its name in the following table.

Name	Number of shares
J.P. Morgan Securities Inc. ....	
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	
Total .....	

The international underwriters are committed to purchase all the common stock offered by us and the selling stockholder if they purchase any shares of common stock (other than those shares of common stock covered by their option to purchase additional shares as described below). The international underwriting agreement also provides that if an international underwriter defaults, the purchase commitments of non-defaulting international underwriters may also be increased or the international offering may be terminated. The international underwriting agreement also provides that the obligations of the international underwriters are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent auditors.

We and the selling stockholder have entered into a Brazilian underwriting agreement with a syndicate of Brazilian underwriters providing for the concurrent offering in Brazil of \_\_\_\_\_ shares of our common stock in the form of BDRs.

The closing of the Brazilian offering will be conditioned on the closing of the international offering.

The international and Brazilian underwriters have entered into an intersyndicate agreement which governs specified matters relating to the global offering. Under this agreement, each international underwriter has agreed that, as part of its distribution of our common stock and subject to permitted exceptions, it has not offered or sold, and will not offer or sell, directly or indirectly, any share of common stock or distribute any prospectus relating to our common stock to any person in Brazil or to any other dealer which does not so agree. Each Brazilian underwriter similarly has agreed that, as part of its distribution of our common stock in the form of BDRs and subject to permitted exceptions, it has not offered or sold, and will not offer to sell, directly or indirectly, any shares of common stock, whether or not in the form of BDRs, or distribute any prospectus relating to our common stock to any person outside Brazil or to any other dealer which does not so agree. These limitations do not apply to stabilization transactions or to transactions between the Brazilian and international underwriters, which have agreed that they may sell common stock or BDRs, as the case may be, between their respective underwriting syndicates. The number of common stock or BDRs, as the case may be, actually allocated to each offering may differ from the amount offered due to reallocation between the international and Brazilian offerings.

The international underwriters propose to offer the shares of common stock directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \_\_\_\_\_ per share. Any such dealers may resell shares to certain other brokers or dealers at a discount of up to \_\_\_\_\_ per share from the initial public offering price. After the initial public offering of the shares of common stock, the international underwriters may change the offering price and other selling terms. The representatives have advised us that the international underwriters do not intend to confirm discretionary sales in excess of 5% of the common stock offered in the offering.

The international underwriters have an option to \_\_\_\_\_ buy up to additional shares of common stock from us to cover sales of shares by the international underwriters which exceed the number of shares specified in the table above. The international underwriters have 30 days from the date of this prospectus to exercise this over-allotment option. If any additional shares of common stock are purchased, the international underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the international underwriters to us and the selling stockholder per share of common stock. The underwriting fee in connection with the international offering is  per share. The following table shows the per share and total underwriting discount to be paid to the international underwriters by us and the selling stockholder assuming both no exercise and full exercise of the international underwriters' option to purchase additional shares.

**Underwriting discount:**

	Paid by us		Paid by the selling stockholder	
	Without over-allotment exercise	With full over-allotment exercise	Without over-allotment exercise	With full over-allotment exercise
Per share .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

We estimate that the total expenses of the international offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discount, will be approximately , which includes expenses of  incurred by the international underwriters that we have agreed to reimburse.

The international offering of our shares of common stock is made for delivery when and if accepted by the international underwriters and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The international underwriters reserve the right to reject an order for the purchase of shares in whole or part.

A prospectus in electronic format may be made available on the websites maintained by one or more international underwriters, or selling group members, if any, participating in the offering. The international underwriters may agree to allocate a number of shares to selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to international underwriters and selling group members that may make Internet distributions on the same basis as other allocations. In addition, the international underwriters may sell shares to securities dealers who resell shares to online brokerage account holders. The information on any such website is not part of this prospectus.

We, the selling stockholder and our executive officers and directors have agreed with the underwriters prior to the commencement of this offering that we and each of these persons or entities, with limited exceptions, for a period of 180 days after the date of this prospectus, may not, without the prior written consent of the representatives, among other things:

- (1) offer, pledge, announce the intention to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock (including, without limitation, BDRs representing such shares, common stock or BDRs that may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant), or
- (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, including BDRs representing such shares,

whether any such transaction described in bullet points (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise. The 180-day restricted period described above will be extended if during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs or if prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the representatives waive, in writing, such extension.

The representatives have no current intent or arrangement to release any of the shares subject to the lock-up agreements prior to the expiration of the 180-day lock-up period. There is no contractually specified condition for the waiver of lock-up restrictions, and any waiver is at the discretion of the representatives.

There are no specific criteria for the waiver of lock-up restrictions, and the representatives cannot in advance determine the circumstances under which a waiver might be granted. Any waiver will depend on the facts and circumstances existing at the time. Among the factors that the representatives may consider in deciding whether to release shares may include the length of time before the lock-up expires, the number of shares involved, the reason for the requested release, market conditions, the trading price of our common stock or the BDRs, historical trading volumes of our common stock or the BDRs, and whether the person seeking the release is an officer, director or affiliate of our company. The representatives will not consider their own positions in our securities, if any, in determining whether to consent to a waiver of a lock-up agreement.

We and the selling stockholder have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

We expect to apply to have our common stock approved for listing on The New York Stock Exchange under the symbol JBS.We also expect to apply to list the BDRs on the S o Paulo Stock Exchange under the symbol  .

In connection with the offering, the international underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involve the sale by the international underwriters of a greater number of shares of common stock than they are required to purchase in the offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be coveredshorts, which are short positions in an amount not greater than the international underwriters' over-allotment option referred to above, or may be nakedshorts, which are short positions in excess of that amount. The international underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the international underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the international underwriters may purchase shares through the over-allotment option. A naked short position is more likely to be created if the international underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in the international offering. To the extent that the international underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The international underwriters have advised us that, pursuant to Regulation M under the Exchange Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the international underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the international underwriters that sold those shares as part of the offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the international underwriters commence these activities, they may discontinue them at any time. The international underwriters may carry out these transactions on The New York Stock Exchange, in the over-the-counter market or otherwise.

In connection with the Brazilian offering,  , acting through its brokerage house  , on behalf of the Brazilian underwriters, may engage in transactions on the S o Paulo Stock Exchange that stabilize, maintain or otherwise affect the price of the BDRs. In addition, it may bid for, and purchase, BDRs in the open market to cover syndicate short positions or stabilize the price of the BDRs. These stabilizing transactions may have the effect of raising or maintaining the market price of our common stock, whether or not in the form of BDRs, or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the absence of these transactions. These transactions, if commenced, may be discontinued at any time. Reports on stabilization activity are required to be furnished to the CVM. Stabilization activities may be carried out for up to 30 days from the day after the date of this prospectus. A stabilization activities agreement, in a form approved by the CVM, has been executed simultaneously with the execution of the Brazilian underwriting agreement.

At our request, the underwriters have reserved for sale as part of the international offering, at the initial offering price, up to  shares, or approximately  of the total number of shares offered in this prospectus, for our employees and directors, selected business associates and certain related persons. If purchased by these persons, these shares will be subject to a -day lock-up restriction. The number of shares of common stock available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered in this prospectus.

Prior to the global offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us and the underwriters. In determining the initial public offering price of the common stock, we and the underwriters considered a number of factors including:

- the information set forth in this prospectus and otherwise available to the underwriters;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;
- our prospects for future earnings;
- the general condition of the securities markets, and the initial public offering market in particular, at the time of the global offering;
- the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and
- other factors deemed relevant by the underwriters, the selling stockholder and us.

Neither we, the selling stockholder nor the underwriters can assure investors that an active trading market will develop for our common stock, or that the shares will trade in the public market at or above the initial public offering price.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of shares of our common stock to the public in that Relevant Member State may be made prior to the publication of a prospectus in relation to our common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of our common stock may be made to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of shares of common stock described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe the shares of common stock, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

## **Notice to prospective investors In Switzerland**

This document, as well as any other material relating to the common stock offered in the offering, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The common stock will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the sale, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange.

Our shares are being offered in Switzerland by way of a private placement, i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase our shares with the intention to distribute them to the public. The investors will be individually approached by us from time to time.

This document, as well as any other material relating to the common stock offered in the global offering, are personal and confidential and do not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the global offering described herein and may neither directly nor indirectly be distributed or made available to other persons without express consent of us. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

## **Notice to prospective investors in the Dubai International Financial Centre**

This document relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The shares of common stock which are the subject of the global offering contemplated by this prospectus may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the common stock offered in the global offering should conduct their own due diligence on the shares. If you do not understand the contents of this document you should consult an authorized financial adviser.

## **Relationships with the underwriters**

The international underwriters and their affiliates have provided in the past to us and our affiliates, including the selling stockholder, and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. Affiliates of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are lenders under our senior secured revolving credit facility. In addition, J.P. Morgan Securities Inc. and an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated were initial purchasers of the 11.625% senior unsecured notes due 2014 that were issued in April 2009 by our wholly owned subsidiaries JBS USA, LLC and JBS Finance, Inc., and J.P. Morgan Securities Inc. was an initial purchaser of JBS S.A.'s 10.5% senior notes due 2016.

In addition, from time to time, the international underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or its customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

## Legal matters

The validity of the shares of common stock offered hereby and certain other matters of United States law will be passed upon for us by White & Case LLP. Certain matters of United States law in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP. Certain matters of Brazilian law in connection with this offering will be passed upon for us by Pinheiro Neto Advogados. Certain matters of Brazilian law in connection with this offering will be passed upon for the underwriters by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados.

## Experts

Our consolidated financial statements as of and for the year ended December 28, 2008, have been audited by BDO Seidman, LLP, as stated in their report included elsewhere in this prospectus and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements as of and for (1) the 173 days from July 11, 2007 through December 30, 2007, (2) the 198 days from December 25, 2006 through July 10, 2007, and (3) the year ended December 24, 2006, included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said reports.

The consolidated financial statements of JBS Packerland Inc. (formerly known as Smithfield Beef Group, Inc.) as of and for the year ended April 27, 2008, appearing in this prospectus and in the registration statement, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of said firm as experts in accounting and auditing.

The financial statements of Five Rivers Ranch Cattle Feeding LLC as of and for the year ended March 31, 2008, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing elsewhere in this prospectus. Such financial statements are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Our condensed consolidated financial statements as of and for the fiscal quarter ended March 29, 2009 have been reviewed by BDO Seidman, LLP as stated in their report included elsewhere in this prospectus. This report is not considered a report or part of the prospectus within the meaning of Sections 7 and 11 of the Securities Act of 1933, and Section 11 liability under that Act does not extend to such report.

## Where you can find more information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock we are offering. The registration statement, including the attached exhibits and schedule, contains additional relevant information about us and our common stock. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedule thereto. The rules and regulations of the SEC allow us to omit from this prospectus certain information included in the registration statement. When we complete this offering, we will be required to file annual, quarterly and special reports, proxy statements and other information with the SEC.

For further information about us and our common stock, you may inspect a copy of the registration statement and the exhibits and schedule to the registration statement without charge at the offices of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of the registration statement from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549 upon the payment of the prescribed fees. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants like us that file electronically with the SEC. You can also inspect our registration statement on this website.



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**BDO Seidman, LLP**  
Accountants and Consultants

700 North Pearl, Suite 2000  
Dallas, Texas 75201  
Telephone: 214-969-7007  
Fax: 214-953-0722

Accountants' review report

Board of Directors  
JBS USA Holdings, Inc.  
1770 Promontory Circle  
Greeley, CO 80634

We have reviewed the accompanying condensed consolidated balance sheet of JBS USA Holdings, Inc. and subsidiaries as of March 29, 2009, and the related condensed consolidated statements of operations, stockholder's equity, and cash flows for the thirteen week period then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of JBS USA Holdings, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The 2008 financial statements of JBS USA Holdings, Inc. (Formerly JBS USA, Inc. and formerly known as Swift Foods Company) were reviewed by other accountants whose report dated May 1, 2008, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

*BDO Seidman, LLP*

July 21, 2009

**JBS USA HOLDINGS, INC.**  
**An indirect subsidiary of JBS S.A.**  
**Condensed consolidated balance sheets**  
(dollars in thousands, except per share data)

	December 28, 2008	(Unaudited) March 29, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	□ 254,785	□ 156,737
Accounts receivable, net of allowance for doubtful accounts of □4,142 and □3,291, respectively.....	588,985	514,160
Inventories, net.....	649,000	650,026
Deferred income taxes, net.....	5,405	5,125
Other current assets.....	85,521	72,430
Total current assets.....	1,583,696	1,398,478
Property, plant, and equipment, net.....	1,229,316	1,241,055
Goodwill.....	147,855	149,093
Other intangibles, net.....	304,967	299,097
Note receivable.....	1,630	172,771
Deferred income taxes, net.....	15,500	15,745
Other assets.....	32,607	32,576
Total assets.....	□3,315,571	□3,308,815
<b>Liabilities and stockholder's equity</b>		
Current liabilities:		
Short-term debt.....	□ 67,012	□ 71,428
Current portion of long-term debt.....	4,499	4,103
Current portion of deferred revenue.....	38,219	23,712
Accounts payable.....	192,697	152,615
Book overdraft.....	160,532	120,932
Deferred income taxes, net.....	8,587	8,723
Accrued liabilities.....	283,069	271,256
Total current liabilities.....	754,615	652,769
Long-term debt, excluding current portion.....	806,808	901,517
Deferred revenue.....	163,064	158,723
Deferred income taxes, net.....	150,670	150,774
Other non-current liabilities.....	52,164	50,093
Total liabilities.....	1,927,321	1,913,876
Commitments and contingencies		
Stockholder's equity:		
Common stock: par value □01 per share, 500,000,000 authorized, 100 shares issued and outstanding.....	□	□
Additional paid-in capital.....	1,400,159	1,400,159
Retained earnings.....	49,512	51,764
Accumulated other comprehensive loss.....	(61,421)	(56,984)
Total stockholder's equity.....	1,388,250	1,394,939
Total liabilities and stockholder's equity.....	□3,315,571	□3,308,815

The accompanying notes are an integral part of this condensed consolidated financial statement.

**JBS USA Holdings, Inc.**  
**An Indirect Subsidiary of JBS S.A.**  
**Condensed consolidated statements of operations**  
(dollars in thousands, except per share data)

	<b>(Unaudited)</b>	
	<b>Thirteen weeks ended</b>	
	<b>March 30, 2008</b>	<b>March 29, 2009</b>
Gross sales .....	□ 2,478,734	□ 3,211,555
Less deductions from sales.....	(17,077)	(15,216)
Net sales .....	2,461,657	3,196,339
Cost of goods sold .....	2,451,413	3,123,358
Gross profit .....	10,244	72,981
Selling, general, and administrative expenses.....	31,042	61,598
Foreign currency transaction gains.....	(12,614)	(5,075)
Other income, net.....	(3,782)	(1,475)
Loss on sales of property, plant, and equipment.....	19	180
Interest expense, net.....	8,108	14,592
Income (loss) before income tax expense.....	(12,529)	3,161
Income tax expense .....	5,613	909
Net income (loss) .....	□ (18,142)	□ 2,252
<i>Income per common share:</i>		
Basic .....	□ (181,420.00)	□ 22,520.00
Diluted .....	□ (181,420.00)	□ 22,520.00
<i>Weighted average shares:</i>		
Basic .....	100	100
Diluted .....	100	100

The accompanying notes are an integral part of this condensed consolidated financial statement.

**JBS USA Holdings, Inc.**  
**An Indirect Subsidiary of JBS S.A.**  
**Condensed consolidated statements of cash flows**  
(dollars in thousands)

	(Unaudited)	
	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
<b>Cash flows from operating activities:</b>		
Net income (loss) .....	□ (18,142)	□ 2,252
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation .....	16,472	27,407
Amortization of intangibles .....	2,667	5,945
Amortization of debt issuance costs .....	606	1,123
Loss on sale of property, plant, and equipment .....	233	180
Deferred income taxes .....	175	104
Foreign currency transaction gains .....	(11,869)	(3,311)
Change in operating assets and liabilities:		
Restricted cash .....	30,566	□
Accounts receivable, net .....	(12,767)	64,815
Inventories .....	(67,030)	2,696
Other current assets .....	(7,198)	3,467
Accounts payable and accrued liabilities .....	(62,632)	(39,845)
Noncurrent assets .....	8	(9,975)
Noncurrent liabilities .....	□	(3,855)
Net cash flows provided by (used in) operating activities .....	(128,911)	51,003
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment .....	(11,676)	(35,189)
Proceeds from sales of property, plant, and equipment .....	40	15
Investment in bonds .....	(4,900)	□
Proceeds from sale of nonoperating real property .....	1,160	□
Notes receivable and other .....	□	(171,266)
Net cash flows used in investing activities .....	(15,376)	(206,440)
<b>Cash flows from financing activities:</b>		
Net borrowings of revolver .....	□	96,806
Payments of short-term debt .....	(416,980)	(334)
Payments of long-term debt and capital lease obligations .....	(368)	(1,182)
Change in overdraft balances .....	(10,517)	(39,601)
Investment from parent .....	450,000	□
Net cash flows provided by financing activities .....	22,135	55,689
Effect of exchange rate changes on cash .....	634	1,700
Net change in cash and cash equivalents .....	(121,518)	(98,048)
Cash and cash equivalents, beginning of period .....	198,883	254,785
Cash and cash equivalents, end of period .....	□ 77,365	□ 156,737
<b>Non-cash investing and financing activities:</b>		
Construction in progress under deemed capital lease .....	□ 8,178	□ 135
<b>Supplemental information:</b>		
Cash paid for interest .....	□ 24,173	□ 2,393
Cash paid for income taxes .....	□ 385	□ 3,309

The accompanying notes are an integral part of this condensed consolidated financial statement.

**JBS USA Holdings, Inc.**  
**An indirect subsidiary of JBS S.A.**

**Condensed consolidated statements of stockholder's equity**

(dollars in thousands)  
(Unaudited)

**For the thirteen weeks ended March 30, 2008 and March 29, 2009**

	Common stock issued/ outstanding	Common stock	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income/(loss)	Total stockholder's equity
Balance at December, 30, 2007 .....	100	□□	□ 950,159	□(111,592)	□ 251	□ 838,818
Capital contributions.....	□	□	450,000	□	□	450,000
Comprehensive income (loss):						
Net income.....	□	□	□	(18,142)	□	(18,142)
Derivative financial instrument adjustment, net of tax of □143.....	□	□	□	□	446	446
Foreign currency translation adjustment .....	□	□	□	□	9,953	9,953
Total comprehensive loss						(7,743)
Balance at March 30, 2008 .....	100	□□	□1,400,159	□(129,734)	□10,650	□1,281,075

	Common stock issued/ outstanding	Common stock	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income/(loss)	Total stockholder's equity
Balance at December, 28, 2008 .....	100	□□	□1,400,159	□49,512	□(61,421)	□1,388,250
Comprehensive income (loss):						
Net income.....	□	□	□	2,252	□	2,252
Derivative financial instrument adjustment, net of tax of □280.....	□	□	□	□	457	457
Foreign currency translation adjustment .....	□	□	□	□	3,980	3,980
Total comprehensive income.....						6,689
Balance at March 29, 2009 .....	100	□□	□1,400,159	□51,764	□(56,984)	□1,394,939

The accompanying notes are an integral part of this condensed consolidated financial statement.

# JBS USA Holdings, Inc.

## An indirect subsidiary of JBS S.A.

### Notes to condensed consolidated financial statements

#### Note 1. Description of business

JBS USA Holdings, Inc. (JBS USA Holdings or the Company), formerly known as JBS USA, Inc. is a Delaware corporation. The operations of the Company and its subsidiaries constitute the operations of JBS USA Holdings as reported under accounting principles generally accepted in the United States of America (GAAP). JBS USA Holdings, Inc. is an indirect subsidiary of JBS S.A., a Brazilian company (JBS). The accompanying interim consolidated financial statements have not been audited by independent certified public accountant but in the opinion of management, reflect all normal and recurring adjustments considered necessary for a fair presentation of the financial position and results of operations. The results of operations for thirteen weeks ended March 29, 2009 are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In addition, the Company's condensed consolidated financial statements and footnotes contained herein do not include all of the information and footnotes required by GAAP to be considered complete financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the fifty-two weeks ended December 28, 2008.

JBS USA Holdings processes, prepares, packages, and delivers fresh, further processed and value-added beef, pork and lamb products for sale to customers in the United States and international markets. JBS USA Holdings sells its meat products to customers in the foodservice, international, further processor, and retail distribution channels. The Company also produces and sells by-products that are derived from its meat processing operations, such as hides and variety meats, to customers in various industries.

JBS USA Holdings conducts its domestic beef and pork processing businesses through its wholly owned subsidiaries Swift Beef Company (Swift Beef), Swift Pork Company (Swift Pork) and JBS Packerland (JBS Packerland), formerly known as Smithfield Beef Group and its Australian beef business through Swift Australia Pty. Ltd. (Swift Australia). We have two reportable segments comprised of Beef and Pork which, for the thirteen weeks ended March 30, 2008, represented approximately 78.5% and 21.5% of net sales and for the thirteen weeks ended March 29, 2009, represented approximately 83.6% and 16.4% of net sales, respectively. The Company operates eight beef processing facilities, three pork processing facilities, one lamb slaughter facility, one value-added facility, and eleven feedlots in the United States and ten processing facilities and five feedlots in Australia. Three of the processing facilities in Australia process lamb, mutton and veal along with beef and a fourth processes only lamb, mutton and veal.

On July 11, 2007, JBS acquired the Company (the Acquisition). Concurrent with the closing of the Acquisition, the entity formerly known as Swift Foods Company was renamed JBS USA, Inc. During the third quarter of the 2008 fiscal year, this entity was renamed JBS USA Holdings, Inc. The aggregate purchase price for the Acquisition was \$1,470.6 million (including approximately \$48.5 million of transaction costs). The Company also refinanced its debt, the debt of its subsidiaries, and the outstanding debt assumed in the Acquisition which collectively were paid off using proceeds from \$750 million of various debt instruments (see Note 7) and additional equity contributions from JBS. As a result of the Acquisition, the consolidated financial statements of JBS USA Holdings provided herein reflect the acquisition being accounted for as a purchase in accordance with Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* (SFAS No. 141) and push down accounting was applied in accordance with the guidance in Staff Accounting Bulletin (SAB) No. 54 to the consolidated financial statements.

#### Note 2. Acquisition of Tasman Group

On March 4, 2008, JBS Southern Australia Pty. Ltd. (JBS Southern), an indirect subsidiary of JBS USA Holdings entered into an agreement with Tasman Group Services, Pty. Ltd. (Tasman Group) to purchase substantially all of the assets of Tasman Group in an all cash transaction (Tasman Acquisition) and the purchase was completed on May 2, 2008. The assets acquired include six processing facilities and one feedlot located in Southern Australia. This acquisition provides additional capacity to continue to meet customer demand. The aggregate purchase price for the Tasman Acquisition was \$117.3 million (including approximately \$8.6 million of transaction costs), as shown below. JBS Southern also assumed approximately \$52.1 million of outstanding debt (see Note 7). The consolidated financial statements of the Company provided herein reflect the Tasman Acquisition being accounted for as a purchase in accordance with SFAS No. 141. The results of the Tasman Group are included in the Company's statement of operations from the date of acquisition.



The purchase price allocation is preliminary pending completion of independent valuations of assets and liabilities acquired in the area of identified intangibles and certain liabilities including, but not limited to deferred taxes. As such, the allocation of purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of May 2, 2008 (in thousands).

Purchase price paid to previous shareholders.....	□ 108,786
Fees and direct expenses .....	8,555
<b>Total purchase price.....</b>	<b>□117,341</b>
Purchase price allocation:	
Current assets and liabilities .....	□ (27,942)
Property, plant, and equipment.....	157,396
Deferred tax liability .....	(3,539)
Goodwill .....	□
Other noncurrent assets and liabilities, net .....	(8,574)
<b>Total purchase price allocation .....</b>	<b>□117,341</b>

### Note 3. Acquisition of Smithfield Beef Group & Five Rivers Cattle Feeding

On March 4, 2008, JBS and Smithfield Foods, Inc. (Smithfield Foods) entered into a Stock Purchase Agreement (Smithfield Agreement). Pursuant to the Smithfield Agreement, JBS executed through the Company the acquisition of Smithfield Beef Group, Inc. (Smithfield Beef) for \$563.2 million in cash (including \$26.1 million of transaction related costs) and contributed its ownership in Smithfield Beef to the Company (Smithfield Acquisition). The purchase included 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), which was held by Smithfield Beef in a 50:50 joint venture with Continental Grain Company (CGC, formerly ContiGroup Companies, Inc.). On October 23, 2008, the acquisition of Smithfield Beef was completed. In conjunction with the closing of this purchase Smithfield Beef was renamed JBS Packerland and Five Rivers was renamed JBS Five Rivers Cattle Feeding LLC (JBS Five Rivers). The assets acquired include four processing plants and eleven feedlots. This acquisition provides additional capacity to continue to meet customer demand.

The purchase excluded substantially all live cattle inventories held by Smithfield Beef and Five Rivers as of the closing date, together with the associated debt. The excluded live cattle were raised by JBS Five Rivers after closing for a negotiated fee.

The consolidated financial statements of the Company reflect the acquisition being accounted for as a purchase in accordance with SFAS No. 141. The acquired goodwill is treated as non-deductible for tax purposes. The results of JBS Packerland and JBS Five Rivers are included in the Company's statement of operations from the date of acquisition.

The purchase price allocation is preliminary pending completion of independent valuations of assets and liabilities acquired including, but not limited to deferred taxes. As such, the allocation of purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands).

Purchase price paid to previous shareholders.....	□ 537,068
Fees and direct expenses .....	26,134
<b>Total purchase price.....</b>	<b>□563,202</b>
Purchase price allocation:	
Current assets and liabilities .....	□ 43,052
Property, plant, and equipment.....	423,955
Deferred tax liability .....	(142,997)
Goodwill .....	95,998
Intangible assets (see Note 4) .....	138,023
Other noncurrent assets and liabilities, net .....	5,171
<b>Total purchase price allocation .....</b>	<b>□563,202</b>

Had the Smithfield Acquisition occurred at the beginning of fiscal 2008, the unaudited pro forma net sales, net loss and net loss per share would have been \$3.3 billion, \$(8.5) million, and \$(85,410.00), respectively for the first quarter of 2008.

## Note 4. Basis of presentation and accounting policies

### **Consolidation**

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

### **Use of estimates**

The consolidated financial statements have been prepared in conformity with GAAP using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments. Significant estimates made by the Company include the allowance for doubtful accounts, reserves related to inventory obsolescence or valuation, insurance accruals, and income tax accruals.

### **Fiscal year**

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Sunday in December. The consolidated financial statements have been prepared for the thirteen weeks ended March 30, 2008 and March 29, 2009.

### **Cash and cash equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying value of these assets approximates their fair market value. Financial instruments which potentially subject JBS USA Holdings to concentration of credit risk consist principally of cash and temporary cash investments. At times, cash balances held at financial institutions were in excess of Federal Deposit Insurance Corporation insurance limits. JBS USA Holdings places its temporary cash investments with high quality financial institutions. The Company believes no significant credit risk exists with respect to these cash investments.

### **Accounts receivable and allowance for doubtful accounts**

The Company has a diversified customer base which includes some customers who are located in foreign countries. The Company controls credit risk related to accounts receivable through credit worthiness reviews, credit limits, letters of credit, and monitoring procedures.

The Company evaluates the collectability of its accounts receivable based on a general analysis of past due receivables, and a specific analysis of certain customers which management believes will be unable to meet their financial obligations due to economic conditions, industry-specific conditions, historic or anticipated performance, and other relevant circumstances. The Company continuously performs credit evaluations and reviews of its customer base. The Company will provide an allowance for an account when collectability is not reasonably assured. The Company believes this process effectively mitigates its exposure to bad debt write-offs; however, if circumstances related to changes in the economy, industry, or customer conditions change, the Company may need to subsequently adjust the allowance for doubtful accounts.

The Company adheres to customary industry terms of net seven days. The Company considers all domestic accounts over 14 days as past due and all international accounts over 30 days past due. Activity in the allowance for doubtful accounts is as follows (in thousands):

	March 28, 2008	March 29, 2009
Balance, beginning of period.....	\$1,389	\$4,142
Bad debt expense .....	155	(379)
Change to purchase accounting allowance for doubtful accounts.....	□	(462)
Write-offs .....	1	□
Effect of exchange rates .....	5	(10)
Balance, end of period .....	\$1,550	\$3,291

The \$462 thousand of the change to purchase accounting allowance for doubtful accounts represents the resolution of a receivable which has been fully reserved on the opening balance sheet at the October 23, 2008 Smithfield Beef acquisition date.

## Inventories

Inventories consist primarily of product, livestock, and supplies. Product inventories are considered commodities and are primarily valued based on quoted commodity prices, which approximate net realizable value less cost to complete. Due to a lack of equivalent commodity market data Australian product inventories are valued based on the lower of cost or net realizable value less cost to sell. Livestock inventories are valued on the basis of the lower of first-in, first-out cost or market. Costs capitalized into livestock inventory include cost of feeder livestock, direct materials, supplies, and feed. Cattle and hogs are reclassified from livestock to work in progress at time of slaughter. Supply inventories are carried at historical cost. The components of inventories are as follows (in thousands):

	December 28, 2008	March 29, 2009
Livestock .....	□106,288	□104,004
Product inventories:		
Raw material .....	16,599	11,539
Work in progress .....	53,115	46,058
Finished goods .....	386,399	408,008
Supplies .....	86,599	80,417
	□649,000	□650,026

## Other current assets

Other current assets include prepaid expenses which are amortized over the period the Company expects to receive the benefit.

## Property, plant and equipment

Property, plant and equipment was recorded at fair value at the respective dates of the Acquisition, the Tasman Acquisition and the Smithfield Acquisition. Subsequent additions are recorded at cost. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment .....	5 to 15 years
Buildings and improvements .....	15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

The costs of developing internal-use software are capitalized and amortized when placed in service over the expected useful life of the software. Major renewals and improvements that extend the useful life of the asset are capitalized while maintenance and repairs are expensed as incurred. The Company has historically and currently accounts for planned major maintenance activities as they are incurred in accordance with the guidance in the Financial Accounting Standards Board, (FASB) Staff Position (FSP) AUG Air-1: *Accounting for Planned Major Maintenance Activities*. Upon the sale or retirement of assets, the cost and related accumulated depreciation or amortization are eliminated from the respective accounts and any resulting gains or losses are reflected in earnings. Applicable interest charges incurred during the construction of assets are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. The Company capitalized □0.1 million and □0.2 million of interest charges during the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively. Assets held under capital lease are classified in property, plant, and equipment and amortized over the lease term. Capital lease amortization is included in depreciation expense. As of March 29, 2009, JBS USA Holdings had □22.8 million in commitments outstanding for capital projects including □14.5 million related to the Installment Bond Purchase Agreement, as discussed in Other Assets.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When future undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value, the Company compares the asset's estimated future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value and records a provision for impairment as appropriate.

Property, plant, and equipment, net are comprised of the following (in thousands):

	December 28, 2008	March 29, 2009
Land .....	□ 143,253	□ 145,659
Buildings, machinery, and equipment .....	1,022,324	1,066,885
Property and equipment under capital lease .....	17,339	17,349
Furniture, fixtures, office equipment, and other .....	38,867	39,468
Construction in progress .....	88,732	80,383
	1,310,515	1,349,744
Less accumulated depreciation and amortization .....	(81,199)	(108,689)
	□ 1,229,316	□ 1,241,055

Accumulated depreciation includes accumulated amortization on capitalized leases of approximately □3.1 million and □3.9 million as of December 28, 2008 and March 29, 2009, respectively. For the thirteen weeks ended March 30, 2008, the Company recognized □12.9 million and □3.6 million of depreciation and capital lease amortization expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively. For the thirteen weeks ended March 29, 2009, the Company recognized □25.6 million and □1.8 million of depreciation and capital lease amortization expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively.

JBS USA Holdings monitors certain asset retirement obligations in connection with its operations. These obligations relate to clean-up, removal or replacement activities and related costs for □in-place□ exposures only when those exposures are moved or modified, such as during renovations of its facilities. These in-place exposures include asbestos, refrigerants, wastewater, oil, lubricants and other contaminants common in manufacturing environments. Under existing regulations, JBS USA Holdings is not required to remove these exposures and there are no plans or expectations of plans to undertake a renovation that would require removal of the asbestos, nor the remediation of the other in place exposures at this time. The facilities are expected to be maintained and repaired by activities that will not result in the removal or disruption of these in place exposures. As a result, there is an indeterminate settlement date for these asset retirement obligations because the range of time over which JBS USA Holdings may incur these liabilities is unknown and cannot be reasonably estimated. Therefore, JBS USA Holdings cannot reasonably estimate and has not recorded the fair value of the potential liability.

#### **Other assets**

Prior to the Acquisition, Swift Beef entered into an Installment Bond Purchase Agreement (the □Purchase Agreement□) with the City of Cactus, Texas (the □City□) effective as of May 15, 2007. Under the Purchase Agreement, Swift Beef agreed to purchase up to □26.5 million of the □City of Cactus, Texas Sewer System Revenue Improvement and Refunding Bonds, Taxable Series 2007□ to be issued by the City (the □Bonds□). The Bonds are being issued by the City to finance improvements to its sewer system (the □System□) which is utilized by Swift Beef's processing plant located in Cactus, Texas (the □Plant□) as well as other industrial users and the citizens of the community of Cactus. Swift Beef will purchase the Bonds in installments upon receipt of Bond installment requests from the City as the System improvements are completed through an anticipated completion date of June 2010. The interest rate on the Bonds is the six-month LIBOR plus 350 basis points, or 6.04 □ at March 29, 2009. The Bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption beginning on June 1, 2011. The principal and interest on the Bonds will be paid by the City from the net revenues of the System. At March 29, 2009, Swift Beef held □12.0 million of the Bonds, which fall within Level 3 of the value hierarchy in accordance with SFAS No. 157, *Fair Value Measurements* (□SFAS No. 157□).

On May 21, 2007, in connection with the purchase of the Bonds, Swift Beef entered into a Water □ Wastewater Services Agreement (the □Wastewater Agreement□) with the City under which the City will provide water and wastewater services for the Plant at the rates set forth in the Wastewater Agreement. Swift Beef's payments for the City's treatment of wastewater from the Plant will include a capacity charge in the amount required to be paid by the City to pay the principal of, and interest on, the Bonds.

The Company has evaluated the impact of the FASB Emerging Issues Task Force (□EITF□) No. 01-08, *Determining Whether an Arrangement Contains a Lease*, as well as EITF No. 97-10, *The Effect of Lessee Involvement in Asset Construction*, and has determined that it will be required to reflect the wastewater treatment facility as a capital asset (similar to a capital leased asset) as it will be the primary user of the wastewater facility based on projections of volume of throughput. As the City spends funds to construct the facility, the Company will record construction in progress and the related construction financing. At March 29, 2009, □9.0 million had been recognized as construction in progress and construction financing by the Company.

### Debt issuance costs

Costs related to the issuance of debt are capitalized and amortized using the straight-line method to interest expense over the period the debt is outstanding. In conjunction with the Acquisition of JBS USA Holdings, \$1.8 million of fees were capitalized and included in other assets. JBS USA Holdings amortized \$0.3 million of these costs during the thirteen weeks ended March 30, 2008 and none as of March 29, 2009 as the amount under the related loan agreement was repaid in full during fiscal year ended December 28, 2008 (see Note 7).

On November 5, 2008, JBS USA Holdings entered into a \$400.0 million revolving credit facility (see Note 7). The \$13.4 million in debt issuance cost associated with this facility is being amortized as interest expense using the straight-line method over the life of the agreement. During the thirteen weeks ended March 29, 2009, the Company amortized \$1.1 million related to these costs.

### Goodwill and other intangibles

Goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment at least on an annual basis or more frequently if impairment indicators arise, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*. Identifiable intangible assets with definite lives are amortized over their estimated useful lives.

Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in a purchase business combination. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combinations*, and after December 15, 2008 in accordance with SFAS No. 141R as discussed in *Recently Issued Accounting Pronouncements*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company estimates the fair value of its reporting units using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The following is a rollforward of goodwill by segment for the thirteen weeks ended March 29, 2009 (in thousands):

	December 28, 2008	Adjustments	Translation gain	March 29, 2009
Beef .....	\$133,825	\$1,094	\$144	\$135,063
Pork .....	14,030	□	□	14,030
Total .....	\$147,855	\$1,094	\$144	\$149,093

The adjustments to goodwill are a result of the change in purchase price allocation for the Smithfield Acquisition.

Other identifiable intangible assets consist of the following (in thousands):

	December 28, 2008			
	Initial gross carrying amount	Adjustments	Accumulated amortization	Net carrying amount
Amortizing:				
Customer relationships .....	\$129,000	\$69,000	\$(18,104)	\$179,896
Customer contracts .....	15,400	6,078	(2,004)	19,474
Patents .....	5,200	(2,300)	(282)	2,618
Rental contract .....	3,507	□	(573)	2,934
Deferred revenue .....	1,483	□	(459)	1,024
Mineral rights .....	742	□	(65)	677
Subtotal amortizing intangibles .....	155,332	72,778	(21,487)	206,623
Non-amortizing:				
Trademark .....	\$33,300	\$50,800	□	\$84,100
Water rights .....	2,100	12,144	□	14,244
Subtotal non-amortizing intangibles .....	35,400	62,944	□	98,344
Total intangibles .....	\$190,732	\$135,722	\$(21,487)	\$304,967

The adjustments to intangible assets result primarily from the Smithfield Acquisition (see Note 3). The adjustment to patents of \$2.3 million reflects the impairment of a patent that has no future use.

	<b>March 29, 2009</b>			
	<b>Initial gross carrying amount</b>	<b>Adjustments</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
<b>Amortizing:</b>				
Customer relationships .....	\$198,000	\$	\$(23,126)	\$174,874
Customer contracts .....	21,478	\$	(2,619)	18,859
Patents .....	2,900	\$	(330)	2,570
Rental contract .....	3,507	\$	(670)	2,837
Deferred revenue .....	1,483	\$	(537)	946
Mineral rights.....	742	\$	(75)	667
Subtotal amortizing intangibles.....	228,110	\$	(27,357)	200,753
<b>Non-amortizing:</b>				
Trademark.....	\$ 84,100	\$	\$	\$ 84,100
Water rights.....	14,244	\$	\$	14,244
Subtotal non-amortizing intangibles.....	98,344	\$	\$	98,344
<b>Total intangibles .....</b>	<b>\$326,454</b>	<b>\$</b>	<b>\$(27,357)</b>	<b>\$299,097</b>

The customer relationships intangible and customer contracts intangible resulting from the Acquisition are amortized on an accelerated basis over 12 and 7 years, respectively. The customer relationships and customer contracts intangibles resulting from the Smithfield Acquisition are amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability. Patents consist of exclusive marketing rights and are being amortized over the life of the related agreements on a straight line basis, which range from 6 to 20 years. For the thirteen weeks ended March 30, 2008 and March 29, 2009, the Company recognized \$2.7 million and \$5.9 million of amortization expense, respectively.

Based on amortizing intangible assets recognized in JBS USA Holdings balance sheet as of March 29, 2009, amortization expense for each of the next five years is estimated as follows (in thousands):

**For the fiscal years ending:**

2009 (remaining) .....	\$15,325
2010 .....	19,879
2011 .....	18,964
2012 .....	17,400
2013 .....	15,299

**Overdraft balances**

The majority of JBS USA Holdings bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are classified as current liabilities, and the change in the related balance is reflected in financing activities on the statement of cash flows.

**Insurance**

JBS USA Holdings is self-insured for employee medical and dental benefits and purchases insurance policies with deductibles for certain losses relating to worker's compensation and general liability. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of certain claims. Self-insured losses are accrued based upon periodic assessments of estimated settlements for known and anticipated claims, any resulting adjustments to previously recorded reserves are reflected in current period earnings. JBS USA Holdings has recorded a prepaid asset with an offsetting liability to reflect the amounts estimated as due for insured claims incurred and accrued but not yet paid to the claimant by the third party insurance company in accordance with SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

### ***Environmental expenditures and remediation liabilities***

Environmental expenditures that relate to current or future operations and which improve operational capabilities are capitalized at time of incurrence. Expenditures that relate to an existing or prior condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remediation efforts are probable and the costs can be reasonably estimated.

### ***Foreign currency***

For foreign operations, the local currency is the functional currency. Translation into US dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the period. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income (loss). Transaction gains and losses on US dollar denominated intercompany borrowings between the Australian subsidiaries and the Australian parent are recorded in earnings. Translation gains and losses on US dollar denominated intercompany borrowings between the Australian subsidiaries and the US parent and which are deemed to be part of the investment in the subsidiary are recorded in other comprehensive income. The balance of foreign currency translation adjustment in accumulated other comprehensive income at December 28, 2008 and March 29, 2009 was a loss of □(61.1) million and a gain of □4.0 million, respectively.

### ***Income taxes***

JBS USA Holdings calculates its interim income tax provision in accordance with Statement of Financial Accounting Standards No. 109, (□FAS 109□), *Accounting for Income Taxes*, and *Accounting for Income Taxes in Interim Periods* (□FIN 18□). The tax expense recognized for the thirteen weeks ended March 29, 2009 primarily relates to foreign taxes, US federal taxes and other state and local tax expenses in the US. Beginning with the adoption of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (□FIN 48□) as of May 28, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50□ likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. JBS USA Holdings recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision.

### ***Fair value of financial instruments***

The carrying amounts of JBS USA Holdings□ financial instruments, including cash and cash equivalents, short-term trade receivables, and payables, approximate their fair values due to the short-term nature of the instruments. Existing long-term debt was recorded at fair value as of the date of the Acquisition and the Company believes this approximates its fair value at March 29, 2009. Long-term debt incurred since the Acquisition was recorded at fair value at the date of incurrence and is considered to be fair value at March 29, 2009 due to the proximity of the balance sheet date to the issuance of the debt and its variable interest rate (see Note 7).

### ***Revenue recognition***

The Company's revenue recognition policies are based on the guidance in Staff Accounting Bulletin (□SAB□) No. 104, *Revenue Recognition in Financial Statements*. Revenue on product sales is recognized when title and risk of loss are transferred to customers (upon delivery based on the terms of sale), when the price is fixed or determinable, and when collectability is reasonably assured, and pervasive evidence of an arrangement exists. The Company recognizes sales net of applicable provisions for discounts, returns and allowances which are accrued as product is invoiced to customers who participate in such programs based on contract terms and historical and current purchasing patterns.

### ***Advertising costs***

Advertising costs are expensed as incurred. Advertising costs were □1.3 million and □1.0 million for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively.

### ***Research and development***

The Company incurs costs related to developing new beef and pork products. These costs include developing improved packaging, manufacturing, flavor enhancing, and improving consumer friendliness of meat products. The costs of these research and development activities are less than 1□ of total consolidated net sales for the thirteen weeks ended March 30, 2008 and March 29, 2009 and are expensed as incurred.

### **Shipping costs**

Pass-through finished goods delivery costs reimbursed by customers are reported in net sales while an offsetting expense is included in cost of goods sold.

### **Comprehensive income**

Comprehensive income consists of net income, foreign currency translation, and adjustments from derivative financial instruments.

### **Net income per share**

We present dual computations of net income (loss) per share. The basic computation is based on weighted average common shares outstanding during the period. The diluted computation reflects the same calculation as the basic computation as the Company does not have potentially dilutive common stock equivalents.

### **Derivatives and hedging activities**

JBS USA Holdings accounts for its derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities*, (SFAS No. 133), and its related amendment, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. The Company uses derivatives (e.g., futures and options) for the purpose of mitigating exposure to changes in commodity prices and foreign currency exchange rates. The fair value of each derivative is recognized in the balance sheet within current assets or current liabilities. Changes in the fair value of derivatives are recognized immediately in the statement of operations for derivatives that do not qualify for hedge accounting. For derivatives designated as a hedge and used to hedge an existing asset or liability, both the derivative and hedged item are recognized at fair value within the balance sheet with the changes in both of these fair values being recognized immediately in the statement of operations. For derivatives designated as a hedge and used to hedge an anticipated transaction, changes in the fair value of the derivatives are deferred in the balance sheet within accumulated other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction. Any ineffectiveness is recognized immediately in the statement of operations. Amounts deferred within accumulated other comprehensive income are recognized in the statement of operations upon the completion of the related underlying transaction.

Gains and losses from energy and livestock derivatives related to purchases are recognized in the statement of operations as a component of cost of goods sold upon change in fair value. While management believes these instruments help mitigate various market risks, they are not designated and accounted for as hedges under SFAS No. 133 as a result of the extensive recordkeeping requirements of this statement. Gains and losses from foreign currency derivatives and livestock derivatives related to future sales are recognized in the statement of operations as a component of net sales or as a component of other comprehensive income upon change in fair value.

### **Adoption of new accounting pronouncements**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* (SFAS No. 161), which provides for enhanced disclosures about the use of derivatives and their impact on a Company's financial position and results of operations. JBS USA Holdings, Inc. adopted SFAS No. 161 in the thirteen weeks ended March 29, 2009. The adoption did not have a material impact on its financial position, results of operations, or cash flows (see Note 6).

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) is intended to provide greater consistency in the accounting and reporting of business combinations. SFAS 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any non-controlling interest in the acquiree at the acquisition date, measured at fair value at that date. This includes the measurement of the acquirer's shares issued as consideration in a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gains and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. One significant change in this statement is the requirement to expense direct costs of the transaction, which under existing standards are included in the purchase price of the acquired company. This statement also established disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for business combinations consummated after December 31, 2008. Also effective, as a requirement of the statement, after December 31, 2008 any adjustments to uncertain tax positions from business combinations consummated prior to December 31, 2008 will no longer be recorded as an adjustment to goodwill, but will be reported in income. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008; therefore, we expect to adopt SFAS No. 141(R) for any business combinations entered into beginning in fiscal year 2009.



### Recently issued accounting pronouncements

In February 2008, the FASB issued *FASB Staff Position (FSP) No. 157-2* which defers the effective date of SFAS No. 157, *Fair Value Measurements* (SFAS 157), for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis, at least annually. The Company will be required to adopt for these nonfinancial assets and nonfinancial liabilities as of December 29, 2008. The Company believes the adoption of SFAS 157 deferral provisions will not have a material impact on the Company's financial position results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 provides for enhanced financial reporting by enterprises involved with variable interest entities and is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact, if any, of SFAS No. 167 on our financial position, results of operations, and cash flows.

### NOTE 5. Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	December 28, 2008	March 29, 2009
Salaries .....	□ 74,528	□ 66,165
Self insurance reserves.....	24,265	27,475
Taxes.....	15,825	12,884
Freight .....	38,645	35,406
Interest .....	19,672	29,930
Other .....	110,134	99,396
Total .....	□283,069	□271,256

Other accrued liabilities consist of items that are individually less than 5% of total current liabilities.

### NOTE 6. Derivative financial instruments

The Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The criterion that is set forth in this standard is applicable to the fair value measurement where it is permitted or required under other accounting pronouncements.

SFAS No. 157 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company, not a market participant, if there is little available market data and the Company's own assumptions are considered by management to be the best available information.

In the case of multiple inputs being used in fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The adoption of SFAS No. 157 has not resulted in any significant changes to the methodologies used for fair value measurement. The Company uses derivatives for the purpose of mitigating exposure to market risk, such as changes in commodity prices and foreign currency exchange rates. The Company uses exchange-traded futures and options to hedge livestock commodities. The Company uses foreign currency positions, which are actively quoted by an independent financial institution, to mitigate the risk of foreign currency fluctuations in the markets in which it conducts business.

The fair value of derivative assets is recognized within other current assets while the fair value of derivative liabilities is recognized within accrued liabilities. The fair value measurements that are performed on a recurring basis fall within the level 1 of the fair value hierarchy. The amounts are as follows:

	Level 1	
	December 28, 2008	March 29, 2009
<b>Assets:</b>		
Commodity derivatives .....	□42,087	□23,582
Foreign currency rate derivatives .....	12,002	14,463
<b>Total</b> .....	<b>□54,089</b>	<b>□38,045</b>
<b>Liabilities:</b>		
Commodity derivatives .....	□16,392	□7,056
Foreign currency rate derivatives .....	592	5,246
<b>Total</b> .....	<b>□16,984</b>	<b>□12,302</b>

The Company utilizes various raw materials in its operations, including cattle, hogs, and energy, such as natural gas, electricity, and diesel fuel, which are all considered commodities. The Company considers these raw materials generally available from a number of different sources and believes it can obtain them to meet its requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond its control, such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. Generally, the Company purchases derivatives in an attempt to mitigate price risk related to its anticipated consumption of commodity inputs for periods of up to 12 months. The Company may enter into longer-term derivatives on particular commodities if deemed appropriate. As of March 29, 2009, the Company had derivative positions in place covering 2.5□ and 14□ of anticipated cattle and hog needs, respectively, through December 2009.

The following table presents the impact of derivative instruments on the Consolidated Statement of Operations for the thirteen weeks ended March 30, 2008 and March 29, 2009 (in thousands):

Derivatives not designated as hedging instruments	Location of gain/(loss) recognized in income	Amount of gain/(loss) recognized in income thirteen weeks ended	
		March 30, 2008	March 29, 2009
Commodity contracts .....	Net Sales	□(9,923)	□6,114
Foreign exchange contracts .....	Net Sales	(1,364)	17,651
Commodity contracts .....	Cost of Goods Sold	□22,618	□47,558
Foreign exchange contracts .....	Cost of Goods Sold	□	□
<b>Total derivative gain</b> .....		<b>□11,331</b>	<b>□71,323</b>

As of March 29, 2009, the net deferred amount of derivative gains recognized in accumulated other comprehensive income was □90 thousand, net of tax. The company estimates these amounts will be transferred out of accumulated other comprehensive income and recognized within earnings over the next twelve months.

## NOTE 7. Long-term debt and loan agreements

JBS USA Holdings and its direct and indirect subsidiaries have entered into various debt agreements in order to provide liquidity to operate the business on a go forward basis and, through the loan payable to JBS to fund the Acquisition of Smithfield. As of December 28, 2008 and March 29, 2009, debt outstanding consisted of the following (in thousands):

	December 28, 2008	March 29, 2009
Short-term debt		
Secured credit facilities .....	□ 36,186	□ 36,828
Unsecured credit facilities .....	30,826	34,600
Total short-term debt .....	<u>67,012</u>	<u>71,428</u>
Current portion of long-debt:		
Installment note payable .....	1,264	1,008
Capital lease obligations .....	3,235	3,095
Total current portion of long-term debt .....	<u>4,499</u>	<u>4,103</u>
Long-term debt:		
Loans payable to JBS .....	658,588	658,597
Installment note payable .....	10,025	9,793
Senior credit facilities .....	114,673	210,187
Capital lease obligations .....	23,522	22,940
Long-term debt, less current portion .....	<u>806,808</u>	<u>901,517</u>
Total debt .....	<u>□878,319</u>	<u>□977,048</u>

The aggregate minimum principal maturities of debt for each of the five fiscal years and thereafter following March 29, 2009, are as follows (in thousands):

For the fiscal years ending December	Minimum principal maturities
2009 (remaining) .....	□ 74,792
2010 .....	662,898
2011 .....	213,791
2012 .....	3,186
2013 .....	8,990
Thereafter .....	<u>13,391</u>
Total minimum principal maturities .....	<u>□977,048</u>

As of March 29, 2009, JBS USA Holdings had approximately □283.7 million of secured debt outstanding and approximately □26.7 million of outstanding letters of credit. The availability under our revolving credit facilities was □120.3 million as of March 29, 2009.

A summary of the components of interest expense, net is presented below (in thousands):

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
Interest on:		
Unsecured bank loans (approximately, 5.4% and -%).....	8,175	0
Unsecured credit facility (approximately, 7.4% and 5.1%) .....	209	42
Loans payable to JBS (approximately, -% and 6.4%) .....	0	10,621
Capital lease interest.....	227	381
Bank fees .....	98	383
Other miscellaneous interest charges (i) .....	185	1,973
Debt issuance cost amortization .....	606	1,123
Secured credit facility (US) (approximately, -% and 4.2%).....	0	1,763
Secured credit facility (AU) (approximately, -% and 5.6%).....	0	445
Less:		
Capitalized interest .....	(114)	(176)
Interest income .....	(1,278)	(1,963)
<b>Total interest expense, net.....</b>	<b>8,108</b>	<b>14,592</b>

(i) Includes installment note interest expense of \$0.20 million and \$0.06 million as of March 30, 2008 and March 29, 2009, respectively.

### **Description of indebtedness**

**Senior Credit Facilities**—On November 5, 2008, JBS USA, LLC (‘‘JBS USA’’), an indirect wholly owned subsidiary of JBS USA Holdings entered into a secured revolving loan credit agreement (the ‘‘Credit Agreement’’) that allows borrowings up to \$400.0 million, and terminates on November 5, 2011. Up to \$75.0 million of the revolving credit facility is available for the issuance of letters of credit. Borrowings that are index rate loans will bear interest at the prime rate plus a margin of 2.25%, the all-in rate as of March 29, 2009 was 5.50%, while LIBOR rate loans will bear interest at the applicable LIBOR rate, plus a margin of 3.25%, the all-in rate as of March 29, 2009 was 3.75%. At March 29, 2009, the borrowings totaled \$210.2 million. Upon approval by the lender, LIBOR rate loans may be taken for one, two, or three month terms, (or six months at the discretion of the Agent).

**Availability.** Availability under the Credit Agreement is subject to a borrowing base. The borrowing base is based on certain of JBS USA domestic wholly owned subsidiaries’ assets as described below, with the exclusion of JBS Five Rivers Cattle Feeding. The borrowing base consists of percentages of eligible accounts receivable, inventory, and supplies and less certain eligibility and availability reserves. As of March 29, 2009, our borrowing base totaled \$303.6 million.

**Security and guarantees.** Borrowings made by JBS USA are guaranteed by JBS Holdings and all domestic subsidiaries except Five Rivers are collateralized by a first priority perfected lien and interest in accounts receivable, inventory, and supplies.

**Covenants.** The Credit Agreement contains customary representations and warranties and a financial covenant that requires a minimum fixed charge coverage ratio of not less than 1.15 to 1.00. This ratio is only applicable if borrowing availability falls below the minimum threshold which is the greater of 20% of the aggregate commitments or \$70.0 million. The Credit Agreement also contains negative covenants that limit the ability of JBS USA and its subsidiaries to, among other things:

- have capital expenditures greater than \$175 million per year;
- incur additional indebtedness;
- create liens on property, revenue, or assets;
- make certain loans or investments;
- sell or dispose of assets;
- pay certain dividends and other restricted payments;
- prepay or cancel certain indebtedness;
- dissolve, consolidate, merge, or acquire the business or assets of other entities;

- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
- enter into new lines of business;
- enter into certain transactions with affiliates and certain permitted joint ventures;
- agree to restrictions on the ability of the subsidiaries to make dividends;
- agree to enter into negative pledges in favor of any other creditor; and
- enter into sale leaseback transactions and operating leases.

The Credit Agreement also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the Credit Agreement, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien, and certain events related to bankruptcy and insolvency or environmental matters. If an event of default occurs the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest, and fees and exercise remedies under the collateral documents relating to the Credit Agreement. At March 29, 2009, JBS USA was in compliance with all covenants.

Certain covenants of our indebtedness and debt guarantee terms include restrictions on our ability to pay dividends. As of December 28, 2008 and March 29, 2009, the Company had □22.7 million and □17.7 million, respectively, of retained earnings available to pay dividends.

*Installment note payable* □ The installment note payable relates to JBS USA Holdings' financing of a capital investment. The note bears interest at LIBOR, the rate as of March 29, 2009 was 0.49□ plus a fixed margin of 1.75□ per annum with payments due on the first of each month and matures on August 1, 2013.

*Unsecured credit facility* □ Swift Australia entered into an Australian dollar (A) denominated □120 million unsecured credit facility on February 26, 2008 to fund working capital and letter of credit requirements. Under this facility A□80 million can be borrowed for cash needs and A□40 million is available to fund letters of credit. Borrowings are made at the cash advance rate (BBSY) plus a margin of 2.00□ (includes commitment fee of 1.40□), the all-in rate as of March 29, 2009 was 5.10□. The credit facility contains certain financial covenants which require the Company to maintain predetermined ratio levels related to interest coverage, debt coverage and tangible net worth. As of March 29, 2009, the Company is in compliance with all covenants and has USD □34.6 million outstanding. This facility will terminate on October 1, 2009. We intend to seek to refinance this facility.

*Secured credit/ multi-option bridge facility* □ JBS Southern entered into an Australian dollar denominated □80 million secured multi-option bridge facility on July 2, 2008 to fund working capital and letter of credit requirements. JBS Southern property and plant assets secure this bridge facility. Under this facility A□65 million can be borrowed for cash needs and to fund letters of credit. The remaining A□15 million is used to facilitate daily transactional limits. Borrowings are made at the cash advance rate (BBSY) plus a margin of 1.60□, the all-in rate as of March 29, 2009 was 5.60□. The multi-option bridge facility contains covenants and obligations which require the company to comply. As of March 29, 2009, the Company is in compliance with all covenants and has USD □36.8 million outstanding. This facility originally had a fixed term and was set to expire on December 31, 2008. This facility's term has been extended to September 30, 2009. We intend to seek to renew this facility.

The following four loan agreements sum to the □750 million described as debt related to the Acquisition in Note 2. As indicated below, as of March 29, 2009, there were no outstanding balances with respect to these four loan agreements.

*\$250 million loan agreement* □ In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 1.50□ with a maturity date of June 30, 2008. The loan agreement contained customary representations and warranties. The loan agreement was guaranteed by JBS SA. On February 22, 2008, this debt was repaid by the Company using cash received from its parent which has been reflected as an additional capital contribution.

*\$150 million loan agreement* □ In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 0.75□. The loan matured on June 30, 2008. The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS. On February 27, 2008 this debt was repaid by the Company using cash received from its parent which has been reflected as an additional capital contribution.

*\$250 million credit agreement* In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured credit agreement with interest payable quarterly based on three month LIBOR plus a margin of 0.75%. The agreement matured on July 7, 2008. The credit agreement contained customary representations, warranties and negative covenants. There were no maintenance financial covenants but the agreement contained an incurrence Consolidated Net Indebtedness to EBITDA ratio of 3.75 to 1.00 prior to December 31, 2007 and 3.60 to 1.00 commencing on January 1, 2008 and ending on the Maturity Date. The credit agreement was guaranteed by JBS. On July 3, 2008 this credit agreement was repaid with funds received from JBS through a loan repayable to JBS.

*\$100 million loan agreement* In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement. The original 182 day loan agreement with interest payable at maturity based on six month LIBOR plus a margin of 0.8% matured on January 7, 2008. On January 3, 2008, an extension and modification agreement was signed changing the maturity date to July 7, 2008 and increasing the margin to 1.50%. The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS. On July 7, 2008 this loan agreement was repaid with funds received from JBS through a loan repayable to JBS.

The five loan agreements listed below sum to \$750 million and are reflected in the line item "Loans Payable to JBS" in the table at the beginning of this footnote. After issuance, the Company repaid \$91.4 million leaving a remaining balance owed as of March 29, 2009 of \$658.6 million.

*\$100 million loan payable to JBS HU Liquidity* On April 28, 2008, the Company entered into an unsecured loan agreement with its parent, JBS, for \$100 million with a maturity date of April 28, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the all-in rate as of March 29, 2009 was 6.08%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received from this loan were used to fund the purchase of Tasman Group (see Note 2). On March 27, 2009, this loan was assigned to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

*\$25 million loan payable to JBS HU Liquidity* On May 5, 2008, the Company entered into an unsecured loan agreement with JBS for \$25 million with a maturity date of May 5, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the all-in rate as of March 29, 2009 was 6.15%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received were used to fund operations. On March 27, 2009, this loan was assigned to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

*\$25 million loan payable to JBS HU Liquidity* On June 10, 2008, the Company entered into an unsecured loan agreement with JBS for \$25 million with a maturity date of June 10, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the all-in rate as of March 29, 2009 was 5.94%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received from this loan were used to fund operations. On March 27, 2009, this loan was assigned to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

*\$350 million loan payable to JBS HU Liquidity* On June 30 2008, the Company entered into an unsecured loan agreement with JBS totaling \$350 million with a maturity date of June 30, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, for \$250 million the all-in rate as of March 29, 2009 was 6.12% and for \$100 million the rate as of March 29, 2009 was 6.13%. The funds received were used to pay outstanding unsecured bank debt. On March 27, 2009, this loan was assigned to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

*\$250 million loan payable to JBS HU Liquidity* On October 21, 2008, the Company entered into an unsecured loan agreement with JBS for \$250 million with a maturity date of October 21, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. As of March 29, 2009 the all-in rate was 7.13%. The funds received were used for the acquisition of Smithfield Beef and Five Rivers (see Note 3). On March 27, 2009, this loan was assigned to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

See Note 16 regarding subsequent event issuance of \$700 million 11.625% senior unsecured notes by a subsidiary in April 2009.

*Capital and operating leases* □ JBS USA Holdings and certain of its subsidiaries lease the corporate headquarters in Greeley, Colorado under capital lease; six distribution facilities located in New Jersey, Florida, Nebraska, Arizona, Colorado and Texas; marketing liaison offices in the US, Korea, Japan, Mexico, China, and Taiwan; its distribution centers and warehouses in Australia; and a variety of equipment under operating lease agreements that expire in various years between 2008 and 2019. Future minimum lease payments at March 29, 2009, under capital and non-cancelable operating leases with terms exceeding one year are as follows (in thousands):

	<b>Capitalized lease obligations</b>	<b>Noncancellable operating lease obligations</b>
<b>For the fiscal years ending December</b>		
2009 (remaining) .....	□ 3,311	□13,063
2010 .....	4,190	13,813
2011 .....	3,585	11,402
2012 .....	2,957	5,129
2013 .....	2,874	4,355
Thereafter .....	13,618	5,415
Net minimum lease payments .....	30,535	□53,177
Less: Amount representing interest .....	(4,500)	
Present value of net minimum lease payments .....	□26,035	

Rent expense associated with operating leases was □4.9 million and □10.4 million for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively.

## **Note 8. Defined contribution plans**

### ***Defined contribution plans***

The Company sponsors two tax-qualified employee savings and retirement plans (the □401(k) Plans□) covering its US based employees, both union and non-union. Pursuant to the 401(k) Plans, eligible employees may elect to reduce their current compensation by up to the lesser of 75□ of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plans. The 401(k) Plans provide for additional matching contributions by the Company, based on specific terms contained in the 401(k) Plans. On July 8, 2008, the Company amended its 401(k) Plans described above by eliminating the immediate vesting and instituting a five year vesting schedule for all non-production employees and reducing the maximum Company match to an effective 2□ from the former rate of 5□. The trustee of the 401(k) Plans, at the direction of each participant, invests the assets of the 401(k) Plans in participant designated investment options. The 401(k) Plans are intended to qualify under Section 401 of the Internal Revenue Code. The Company's expenses related to the matching provisions of the 401(k) Plans totaled approximately □1.9 million and □1.2 million for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively. One of the Company's facilities participates in a multi-employer pension plan. The Company's contributions to this plan, which are included in cost of goods sold in the statement of operations, were □81 thousand and □72 thousand for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively. The Company also made contributions totaling □14 thousand and □28 thousand for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively, to a multiemployer pension related to former employees at the former Nampa, Idaho plant pursuant to a settlement agreement. As these payments are made, they are recorded as a reduction of the pre-acquisition contingency.

Employees of Swift Australia do not participate in the Company's 401(k) Plans. Under Australian law, Swift Australia contributes a percentage of employee compensation to a superannuation fund. This contribution approximates 9□ of employee cash compensation as required under the Australian □Superannuation Act of 1997□ As the funds are administered by a third party, once this contribution is made to the Superannuation fund, Swift Australia has no obligation for payments to participants or oversight of the fund. The Company's expenses related to contributions to this fund totaled □3.1 million and □3.8 million for the thirteen weeks ended March 30, 2008 and March 29, 2009, respectively.

## Note 9. Deferred revenue

On October 22, 2008 we received a deposit in cash from a customer of \$175 million for the customer to secure an exclusive right to collect a certain byproduct of the beef fabrication process in all of our US beef plants. This agreement was formalized in writing as the Raw Material Supply agreement on February 27, 2008. The customer advance payment was recorded as deferred revenue. As byproduct is delivered to the customer over the term of the agreement the deferred revenue is recognized as revenue in the statement of operations. To provide customers with security, in the unlikely event the Company was to default on our commitment, the payment is evidenced by a note which bears interest at 2 month LIBOR plus 200 basis points. In the event of default the note provides for a conversion into shares of common stock of JBS USA Holdings based on a formula stipulated in the note agreement. Assuming default had occurred on March 29, 2009 the conversion right under the promissory note would have equaled 11.34% of the outstanding common stock, equal to 11.34 shares. The note contains affirmative and negative covenants which require the Company to among other things: maintain defined market share; maintain certain tangible net worth levels; and comply in all material respects with the raw material supply agreement. The unamortized balance at March 29, 2009 was approximately \$168.8 million.

## Note 10. Related party transactions

JBS USA Holdings enters into transactions in the normal course of business with affiliates of JBS. Sales to affiliated companies included in net sales in the statement of operations for the thirteen weeks ended March 30, 2008 and March 29, 2009 were \$5.4 million and \$109.4 million, respectively. Amounts owed to JBS USA Holdings by affiliates as of March 30, 2008 and March 29, 2009 totaled approximately \$5.8 million and \$219.4 million, respectively. Purchases from affiliated companies included in the statement of operations for the thirteen weeks ended March 30, 2008 and March 29, 2009 were \$0.4 million and \$16.6 thousand, respectively. No amounts were due to affiliates by JBS USA Holdings at December 28, 2008 and March 29, 2009 related to these purchases.

The Company had a \$0.6 million receivable from an unconsolidated affiliate at December 28, 2008 related to the funding of debt issuance costs on behalf of the affiliate, which was repaid in January 2009.

For the thirteen weeks ended March 30, 2008, the Company recorded \$22 thousand of rental income related to real property leased to two of its executive officers. For the thirteen weeks ended March 29, 2009, the Company had no rental income related to real property leased to executive officers. At December 28, 2008 and at March 29, 2009, no balances were due to the Company related to these transactions.

The Company had a \$25 thousand receivable from an executive officer at December 28, 2008, which was repaid on January 12, 2009.

The Company has a \$50 thousand receivable from an executive officer at March 29, 2009 (see Note 16).

JBS USA Holdings received capital contributions from its parent of \$450.0 million during the fifty-two weeks ended December 28, 2008, \$50 million was used to fund operations and \$400.0 million was used to repay debt. During the fifty-two weeks ended December 28, 2008, the Company entered into various intercompany loans with JBS. These were contributed to JBS USA and used to fund operations and complete the Tasman Acquisition and Smithfield Acquisition (see Notes 3, 4, and 7).

**Guarantees**—JBS SA has notes payable outstanding of approximately \$300 million at March 29, 2009 that are due in 2016. The indenture governing the 2016 Notes requires any significant subsidiary (any subsidiary constituting at least 20% of JBS S.A.'s total assets or annual gross revenues, as shown on the latest financial statements of JBS S.A.) to guarantee all of JBS S.A.'s obligations under the 2016 Notes. The 2016 Notes are guaranteed by JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A.), our company and our subsidiaries, JBS USA Holdings, Inc., JBS USA, LLC and Swift Beef Company. Additional subsidiaries of JBS S.A. (including our subsidiaries) may be required to guarantee the 2016 Notes in the future.

**Covenants.** The indentures for the 2016 Notes contain customary negative covenants that limit the ability of JBS S.A. and its subsidiaries (including us) to, among other things:

- incur additional indebtedness;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to JBS S.A.'s shareholders;
- permit restrictions on dividends and other restricted payments by its subsidiaries;



- enter into related party transactions;
- enter into sale leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

*Events of default.* The indentures for the 2016 Notes also contain customary events of default, including for failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare such principal and accrued interest on the notes to be immediately due and payable.

*Cattle supply and feeding agreement*—Five Rivers is party to a cattle supply and feeding agreement with an unconsolidated affiliate (the Unconsolidated Affiliate). Five Rivers feeds and takes care of cattle owned by the Unconsolidated Affiliate. The Unconsolidated Affiliate pays Five Rivers for the cost of feed and medicine at cost plus a yardage fee on a per head per day basis. Beginning on June 23, 2009 or such earlier date on which Five Rivers' feed yards are at least 85% full of cattle and ending on October 23, 2011, the Unconsolidated Affiliate agrees to maintain sufficient cattle on Five Rivers' feed yards so that such feed yards are at least 85% full of cattle at all times. The agreement commenced on October 23, 2008 and continues until the last of the cattle on Five Rivers' feed yards as of October 23, 2011 are shipped to the Unconsolidated Affiliate, a packer or another third party.

*Cattle purchase and sale agreement* □ On October 7, 2008 JBS USA, LLC became party to a cattle purchase and sale agreement with the Unconsolidated Affiliate. Under this agreement, the Unconsolidated Affiliate agrees to sell to JBS USA, LLC, and JBS USA, LLC agrees to purchase from the Unconsolidated Affiliate, at least 500,000 cattle during each year from 2009 through 2011. The price paid by JBS USA, LLC is determined pursuant to JBS USA, LLC's pricing grid in effect on the date of delivery. The grid used for the Unconsolidated Affiliate is identical to the grid used for unrelated third parties. If the cattle sold by the Unconsolidated Affiliate in a quarter result in a breakeven loss (selling price below accumulated cost to acquire the feeder animal and fatten it to delivered weight) then JBS USA, LLC will reimburse 40% of the average per head breakeven loss incurred by the Unconsolidated Affiliate on up to 125,000 head delivered to JBS USA, LLC in that quarter. If the cattle sold by the Unconsolidated Affiliate in a quarter result in a breakeven gain (selling price above the accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA, LLC will receive from the Unconsolidated Affiliate an amount of cash equal to 40% of that per head gain on up to 125,000 head delivered to JBS USA, LLC in that quarter. There were no payments under the loss/profit sharing provisions of this agreement for the thirteen weeks ended March 29, 2009.

*Guarantee of unconsolidated affiliate's revolving credit facility*—The Unconsolidated Affiliate has a \$600.0 million secured revolving credit facility with a commercial bank. Its parent company has entered into a keep-well agreement with its subsidiary (the Unconsolidated Affiliate) whereby it will make contributions to the Unconsolidated Affiliate if the Unconsolidated Affiliate is not in compliance with its financial covenants under this credit facility. If the Unconsolidated Affiliate defaults on its obligations under the credit facility and such default is not cured by its parent under the keep-well agreement, Five Rivers is obligated for up to \$250.0 million of guaranteed borrowings plus certain other obligations and costs under this credit facility. This credit facility and the guarantee thereof are secured solely by the assets of the Unconsolidated Affiliate and the net assets of Five Rivers. This credit facility matures on October 7, 2011. This credit facility is used to acquire cattle which are then fed in the Five Rivers feed yards pursuant to the cattle supply and feeding agreement described above. The finished cattle are sold to JBS USA, LLC under the cattle purchase and sale agreement discussed above.

*Credit facility to the unconsolidated affiliate*—Five Rivers is party to an agreement with the Unconsolidated Affiliate pursuant to which Five Rivers has agreed to loan up to \$200.0 million in revolving loans to the Unconsolidated Affiliate. The loans are used by the Unconsolidated Affiliate to acquire feeder animals which are placed in Five Rivers feed yards for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.0% and interest is payable at least quarterly. This credit facility matures October 7, 2011. During the thirteen weeks ended March 29, 2009, average borrowings were approximately \$149.0 million and total interest accrued was approximately \$1.6 million which was recognized as interest income on the statement of operations. As of March 29, 2009 the balance of the note was \$171.4 million including accrued interest of \$40 thousand.

*Variable interest entities*—As of March 29, 2009 the Company holds variable interests in the Unconsolidated Affiliate, which is considered a variable interest entity under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*. The Company has determined that it is not the primary beneficiary of the Unconsolidated Affiliate but has significant variable interests in the entity. The Company's significant variable interests are listed below and discussed further above:

- Five Rivers has agreed to provide up to □200 million in loans to the Unconsolidated Affiliate;
- Five Rivers' guarantee of up to □250 million of the Unconsolidated Affiliate's borrowings under its revolving credit facility plus certain other obligations and costs, which is secured by and limited to the net assets of Five Rivers; and
- JBS USA, LLC's rights and obligations under the cattle purchase and sale agreement.

The Company's maximum exposure to loss related to these variable interests is limited to the lesser of the net assets of Five Rivers (including loans made to the Unconsolidated Affiliate) or □250 million plus certain other obligations and costs. As of March 29, 2009, the carrying value of Five Rivers' net assets is □334.8 million. Potential losses under the terms of the cattle purchase and sale agreement depend on future market conditions.

## Note 11. Income taxes

The pre-tax income (loss) on which the provision for income taxes was computed is as follows (in thousands):

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
Domestic .....	□(28,962)	□2,720
Foreign .....	16,433	441
<b>Total .....</b>	<b>□(12,529)</b>	<b>□3,161</b>

Income tax expense includes the following current and deferred provisions (in thousands):

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
<b>Current provision:</b>		
Federal .....	□ □	□211
State .....	183	93
Foreign .....	5,255	501
<b>Total current tax expense .....</b>	<b>5,438</b>	<b>805</b>
<b>Deferred provision:</b>		
Federal .....	161	104
State .....	14	□
Foreign .....	□	□
<b>Total deferred tax expense .....</b>	<b>175</b>	<b>104</b>
<b>Total income tax expense .....</b>	<b>□5,613</b>	<b>□909</b>

Temporary differences that gave rise to a significant portion of the deferred tax assets (liabilities) include federal and state net operating loss carryforwards, foreign capital loss carryforwards, foreign exchange gain and depreciable and amortizable assets.

The total amount of the deferred tax assets (liabilities) are as follows (in thousands):

	December 28, 2008	March 29, 2009
Total deferred tax liability .....	□(305,915)	□(306,505)
Total deferred tax asset .....	210,389	210,704
Valuation allowance .....	(42,826)	(42,826)
<b>Net deferred tax assets .....</b>	<b>167,563</b>	<b>167,878</b>
<b>Net deferred tax liability .....</b>	<b>□(138,352)</b>	<b>□(138,627)</b>

At December 28, 2008, JBS USA Holdings has recorded deferred tax assets of \$141.0 million for loss carryforwards expiring in the years 2009 through 2029. In addition, JBS USA Holdings has \$14.3 million of tax credits of which \$10.3 million will expire in the years 2009 through 2028 and \$4.0 million will carryforward indefinitely.

Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its net operating losses to reduce its tax liability. JBS USA Holdings experienced an ownership change in January of 2007 and July of 2007. JBS USA Holdings believes that its net operating losses exceed the Section 382 limitation in the amount of \$14 million.

The valuation allowance as of December 28, 2008 and March 29, 2009 was primarily related to loss and credit carryforwards that, in the judgment of management, will not be realized. Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 28, 2008 and March 29, 2009 will be allocated to income tax expense, pursuant to FAS 141R.

JBS USA Holdings deems all of its foreign investments to be permanent in nature and does not provide for taxes on permanently reinvested earnings. It is not practicable to determine the amount of incremental taxes that might arise were these earnings to be remitted.

JBS USA Holdings follows the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). JBS USA Holdings' unrecognized tax benefits are \$8.1 million, the recognition of which would not have a material impact on the effective rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at December 28, 2008.....	\$8,100
Additions based on tax positions related to the current period.....	0
Additions for tax positions of prior years.....	0
Reductions for tax positions of prior years.....	0
Settlements.....	(40)
Balance at March 29, 2009.....	\$8,060

JBS USA Holdings recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. As of December 28, 2008, accrued interest and penalties were \$5 thousand. As of March 29, 2009, accrued interest and penalty amounts related to uncertain tax positions were reduced to zero as a result of a settlement. The unrecognized tax benefit and related penalty and interest balances at March 29, 2009 are not expected to change within the next twelve months.

JBS USA Holdings files income tax returns in the U.S. and in various states and foreign countries. JBS USA Holdings has been audited for US Federal income tax purposes through the May 2004 tax year. No other major jurisdictions where JBS USA Holdings operates have been under audit.

## Note 12. Commitments and contingencies

Swift Beef is a defendant in a lawsuit entitled United States of America, ex rel, Ali Bahrani v. ConAgra, Inc., ConAgra Foods, Inc., ConAgra Hide Division, ConAgra Beef Company and Monfort, Inc., filed in the United States District Court for the District of Colorado in May 2000 by the relator on behalf of the United States of America and himself for alleged violations of the False Claims Act. Under the False Claims Act, a private litigant, termed the "relator," may file a civil action on the United States government's behalf against another party for violation of the statute, which, if proven, would entitle the relator to recover a portion of any amounts recovered by the government. The lawsuit alleges that the defendants violated the False Claims Act by forging and/or improperly altering USDA export certificates used from 1991 to 2002 to export beef, pork, poultry and bovine hides to foreign countries. The lawsuit seeks to recover three times the actual damages allegedly sustained by the government, plus per-violation civil penalties.

On December 30, 2004, the United States District Court granted the defendants' motions for summary judgment on all claims. The United States Court of Appeals for the Tenth Circuit reversed the summary judgment on October 12, 2006 and remanded the case to the trial court for further proceedings consistent with the court's opinion. Defendants filed a Motion for Rehearing En Banc on October 26, 2006. On May 10, 2007, the Tenth Circuit denied that motion.

Issues in the case were bifurcated and two separate jury trials were held, the first trial centering on beef certificates was held from April 28, 2008, to April 29, 2008 and the second trial centering on bovine hide certificates was held from March 9 to March 19, 2009. Following the April trial, a verdict with respect to the beef certificates was returned ruling in favor of the Company on all counts. Following the March trial, a verdict with respect to the bovine hide certificates was returned ruling in favor of Company on 99.5% of the claims. Specifically, Company prevailed with respect to

approximately 995 bovine hide certificates and the relator prevailed with respect to only 5 certificates. Based on the False Claims Act, this verdict resulted in a judgment against Company of \$28 thousand. The relator's right to appeal the March trial verdict lapses in the second fiscal quarter of 2009.

The Company is also a party to a number of other lawsuits and claims arising out of the operation of its businesses. Management believes the ultimate resolution of such matters should not have a material adverse effect on the Company's financial condition, results of operations, or liquidity. Attorney fees are expensed as incurred.

### Commitments

JBS USA Holdings enters into purchase agreements for livestock which require the purchase of either minimum quantities or the total production of the facility over a specified period of time. At March 29, 2009, the Company had commitments to purchase 31.9 million hogs through 2014 and approximately 29% or approximately 2.2 million of our estimated cattle needs through short-term contracts. As the final price paid cannot be determined until after delivery, the Company has estimated market prices based on Chicago Mercantile Exchange traded futures contracts and applied those to either the minimum quantities required per the contract or management's estimates of livestock to be purchased under certain contracts to determine its estimated commitments for the purchase of livestock, which are as follows (in thousands):

<b>Estimated livestock purchase commitments for fiscal years ended:</b>	
2009 (remaining) .....	\$3,178,822
2010 .....	1,088,085
2011 .....	808,777
2012 .....	722,241
2013 .....	489,297
Thereafter.....	98,176

Through use of these contracts, the Company purchased approximately 69% of its hog slaughter needs during the thirteen weeks ended March 29, 2009.

### Note 13. Business segments

JBS USA Holdings is organized into two operating segments, which are also the Company's reportable segments: Beef and Pork. In the Beef segment, we conduct our domestic and international beef processing business, including the beef operations we acquired in the JBS Packerland Acquisition in 2008 and the beef, lamb, and sheep operations we acquired in the Tasman Acquisition in 2008. In the Pork segment, we conduct our domestic pork and lamb processing business. Segment operating performance is evaluated by the Chief Operating Decision Maker ("CODM"), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, based on Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). EBITDA is not intended to represent cash from operations as defined by GAAP and should not be considered as an alternative to cash flow or operating income as measured by GAAP. JBS USA believes EBITDA provides useful information about operating performance, leverage, and liquidity. The accounting policies of the segments are consistent with those described in Note 4. All intersegment sales and transfers are eliminated in consolidation.

On November 5, 2008, the Company entered into a new asset based revolving credit facility (see Note 7). The definition of EBITDA contained in that agreement requires EBITDA to be calculated as net income adding back taxes, depreciation, amortization and interest and excluding certain non-cash items which affect net income. The Company has changed its definition of EBITDA to align with the definition contained in that agreement and as such the amounts below reflect the new definition.

**Beef** The majority of Beef's revenues are generated from US and Australian sales of fresh meat, which include chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. In addition, Beef also sells beef by-products to the variety meat, feed processing, fertilizer, automotive, and pet food industries. Furthermore, Australia's Foods Division produces value-added meat products including toppings for pizzas. On May 2, 2008, JBS Southern completed the Tasman Acquisition and now operates six processing facilities and one feedlot which are reported in the Beef segment (see Note 2). On October 23, 2008, the Company completed the Smithfield Acquisition adding four plants and eleven feedlots which are reported in the Beef segment (see Note 3).

**Pork** A significant portion of Pork's revenues are generated from the sale of products predominantly to retailers of fresh pork including trimmed cuts such as loins, roasts, chops, butts, picnics, and ribs. Other pork products, including hams, bellies, and trimmings are sold predominantly to further processors who, in turn, manufacture bacon, sausage, and deli and luncheon meats. The remaining sales are derived from by-products and from further-processed, higher-margin products. The lamb slaughter facility is included in Pork and accounts for less than 1% of total net sales.

*Corporate and other* □ Includes certain revenues, expenses, and assets not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
	(in thousands)	(in thousands)
<b>Net sales</b>		
Beef.....	□1,935,142	□2,680,205
Pork.....	535,509	526,283
Corporate and other.....	(8,994)	(10,149)
<b>Total</b> .....	□2,461,657	□3,196,339
<b>Depreciation and amortization</b>		
Beef.....	□ 14,114	□ 26,568
Pork.....	5,025	6,784
<b>Total</b> .....	□ 19,139	□33,352
<b>EBITDA</b>		
Beef.....	□ (13,517)	□ 59,670
Pork.....	15,640	7,478
Corporate .....	□	(20,938)
<b>Total</b> .....	2,123	46,210
Depreciation and amortization .....	(19,139)	(33,352)
Interest expense, net.....	(8,108)	(14,592)
Foreign currency transaction gains.....	12,614	5,075
Loss on sales of property, plant and equipment .....	(19)	(180)
Income (loss) before income tax expense .....	(12,529)	3,161
Income tax expense .....	5,613	909
<b>Net income (loss)</b> .....	□(18,142)	□2,252
<b>Capital expenditures</b>		
Beef.....	□ 8,727	□ 26,897
Pork.....	2,949	8,292
<b>Total</b> .....	□ 11,676	□ 35,189

Sales by geographical area based on the location of the facility recognizing the sale (in thousands):

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
<b>Net sales</b>		
United States .....	□2,072,651	□2,817,070
Australia .....	389,006	379,269
<b>Total</b> .....	□2,461,657	□3,196,339

Sales to unaffiliated customers by location of customer (in thousands):

	Thirteen weeks ended	
	March 30, 2008	March 29, 2009
United States.....	\$1,772,254	\$2,533,813
Japan.....	145,485	155,387
Australia.....	104,041	106,748
Mexico.....	127,122	97,924
China.....	55,501	67,295
Other.....	257,254	235,172
<b>Total</b> .....	<b>\$2,461,657</b>	<b>\$3,196,339</b>

No single customer or supplier accounted for more than 10% of net sales or cost of goods sold, respectively, during the thirteen weeks ended March 29, 2009.

Corporate and other% Includes certain assets not directly attributable to the primary segments as well as the parent companies% investment in each operating subsidiary. Also includes eliminations resulting from the consolidation process.

Total assets by segments (in thousands):

	December 28, 2008	March 29, 2009
	(in thousands)	(in thousands)
<b>Total assets</b>		
Beef.....	\$2,838,619	\$2,760,533
Pork.....	519,995	524,553
Corporate and other.....	(43,043)	23,729
<b>Total</b> .....	<b>\$3,315,571</b>	<b>\$3,308,815</b>

Long-lived tangible assets by location of assets (in thousands):

	December 28, 2008	March 29, 2009
<b>Long-lived assets:</b>		
United States.....	\$ 906,044	\$1,108,901
Australia.....	360,400	364,687
Other.....	83	97
<b>Total</b> .....	<b>\$1,266,527</b>	<b>\$1,473,685</b>

Long-lived assets consist of (1) property, plant, and equipment, net of depreciation, and (2) other assets less debt issuance costs of \$12.5 million and \$11.5 million as of December 28, 2008 and March 29, 2009, respectively.

## Note 14. Supplemental guarantor information

JBS USA Holdings% income and cash flow is generated by its subsidiaries. As a result, funds necessary to meet the Company% debt service obligations, including its obligations as Guarantor under the unsecured debt due 2014 of its subsidiary JBS USA, LLC (see Note 16) are provided in large part by distributions or advances from its subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as JBS USA Holding% financial condition and operating requirements and those of certain domestic subsidiaries, could limit the Company% ability to obtain cash for the purpose of meeting its debt service obligation including the payment of principal and interest on the unsecured debt offering due 2014.

The following condensed financial statements set forth JBS USA Holdings% balance sheets as of December 28, 2008 and March 29, 2009, statements of earnings for the thirteen weeks ended March 30, 2008 and March 29, 2009 and statements of cash flows for the thirteen weeks ended March 30, 2008 and March 29, 2009. Effective with the date of the debt issuance, JBS USA, LLC% unsecured debt offering due 2014 has been guaranteed by JBS USA Holdings (the %Parent Guarantor%), JBS USA, LLC (the %Issuer%) and each of JBS USA Holding% domestic subsidiaries (the %Subsidiary Guarantors%), excluding Five Rivers Cattle Feeding. The financial information is presented under the following column headings: Parent Guarantor, Issuer, Subsidiary Guarantors, and Subsidiary Non-Guarantors. %Subsidiary Non-

Guarantors include the foreign subsidiaries of JBS USA Holdings, which include Swift Refrigerated Foods S.A. de C.V., Kabushiki Kaisha SAC Japan, Swift Australia Pty. Ltd, and the domestic subsidiary, Five Rivers Cattle Feeding. For purposes of this Guarantor Non guarantor presentation, investments in JBS USA Holdings subsidiaries are accounted for on the equity method. Accordingly, entries necessary to consolidate the Parent Guarantor, the Issuer, and all of its subsidiaries are reflected in the eliminations column. Separate complete financial statements of the Issuer and the Subsidiary Guarantors would not provide additional material information that would be useful in assessing the financial composition of the Issuer or the Subsidiary Guarantors.

All of the Subsidiary Guarantors are wholly-owned subsidiaries of JBS USA, LLC and their guarantees are full and unconditional, and joint and several. There are no provisions in the indentures governing the unsecured debt due 2014 or other existing agreements that would prevent holders of guaranteed obligations from taking immediate action against the Parent Guarantor or any Subsidiary Guarantor in the event of default. The ability of the Subsidiary Guarantors to pay dividends or make loans or other payments to JBS USA Holdings depends on their earnings, capital requirements, and general financial condition. The Parent Guarantor is a holding company with no operations of its own, and its assets consist of financing costs associated with, and the member's interest of, JBS USA, LLC. Consequently, its ability to pay amounts under its guarantee depends on the earnings and cash flows of JBS USA, LLC and its subsidiaries and the ability of these entities to pay dividends or advance funds to the Parent Guarantor.

# Condensed consolidating balance sheet

## December 28, 2008

(in thousands)

	JBS USA Holdings parent guarantor	JBS USA, LLC issuer	Subsidiary guarantors	Subsidiary non-Eliminations/ guarantors	adjustments	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents.....	□ 36	□ 32,096	□ 4,372	□ 218,281	□	□ 254,785
Accounts receivables, net.....	□	100,752	404,446	181,324	(97,537)	588,985
Net intercompany receivables .....	□	889,097	□	21,786	(910,883)	□
Inventories, net .....	□	□	440,696	208,304	□	649,000
Deferred income taxes, net.....	□	□	14,544	21	(9,160)	5,405
Other current assets .....	373	21,704	87,384	14,972	(38,912)	85,521
Total current assets .....	409	1,043,649	951,442	644,688	(1,056,492)	1,583,696
Property, plant and equipment, net .....	□	□	810,684	418,632	□	1,229,316
Notes receivable.....	□	□	1,541	89	□	1,630
Other assets.....	11,640	104,661	432,888	66,344	(114,604)	500,929
Net investment in and advances to subsidiaries .....	2,322,622	1,410,127	□	□	(3,732,749)	□
Total assets .....	□2,334,671	□2,558,437	□2,196,555	□1,129,753	□(4,903,845)	□3,315,571
<b>Liabilities and stockholder's equity</b>						
Current liabilities:						
Short-term debt.....	□	□	□	□ 67,012	□	□ 67,012
Current portion of long term debt.....	□	920	2,028	1,551	□	4,499
Current portion of deferred revenue.....	10,400	302	24,916	2,601	□	38,219
Net Intercompany payable.....	□	□	910,883	□	(910,883)	□
Accounts payable.....	96,291	□	112,354	81,397	(97,345)	192,697
Book overdraft.....	□	8,377	134,878	17,277	□	160,532
Accrued liabilities able .....	17,366	81,246	157,353	66,209	(39,105)	283,069
Deferred income taxes, net.....	1,182	7,977	□	8,587	(9,159)	8,587
Total current liabilities.....	125,239	98,822	1,342,412	244,634	(1,056,492)	754,615
Long-term debt, excluding current portion.....	658,588	123,968	21,960	2,292	□	806,808
Deferred revenue, excluding current portion.....	162,594	8	462	□	□	163,064
Deferred income taxes, net.....	□	□	263,890	1,384	(114,604)	150,670
Other noncurrent liabilities Commitments and contingencies .....	□	13,017	17,656	21,491	□	52,164
Total liabilities .....	946,421	235,815	1,646,380	269,801	(1,171,096)	1,927,321
Total stockholder's equity ...	1,388,250	2,322,622	550,175	859,952	(3,732,749)	1,388,250
Total liabilities and stockholder's equity.....	□2,334,671	□2,558,437	□2,196,555	□1,129,753	□(4,903,845)	□3,315,571



# Condensed consolidating balance sheet

## March 29, 2009

(in thousands)

	JBS USA Holdings parent guarantor	JBS USA, LLC issuer	Subsidiary guarantors	Subsidiary non- guarantors	Eliminations/ adjustments	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents.....	□ 36	□ 95,697	□ 8,674	□ 52,330	□ □	□ 156,737
Accounts receivables, net.....	□	142,905	348,037	164,387	(141,169)	514,160
Net intercompany receivables .....	□	874,470	□	28,262	(902,732)	□
Inventories, net .....	□	□	433,096	216,930	□	650,026
Deferred income taxes, net.....	□	□	14,263	21	(9,159)	5,125
Other current assets .....	10,179	26,210	70,114	13,628	(47,701)	72,430
Total current assets .....	10,215	1,139,282	874,184	475,558	(1,100,761)	1,398,478
Property, plant and equipment, net .....	□	□	816,597	424,458	□	1,241,055
Notes receivable .....	□	895,000	1,415	171,356	(895,000)	172,771
Other assets.....	13,888	102,392	427,791	66,940	(114,500)	496,511
Net investment in and advances to subsidiaries .....	2,350,412	538,417	□	□	(2,888,829)	□
Total assets .....	□2,374,515	□2,675,091	□2,119,987	□1,138,312	□(4,999,090)	□3,308,815
<b>Liabilities and stockholder's equity</b>						
Current liabilities:						
Short-term debt.....	□	□	□	□	□	□ 71,428
Current portion of long-term debt.....	□	920	1,608	1,575	□	4,103
Current portion of deferred revenue.....	10,400	238	10,876	2,198	□	23,712
Net intercompany payable .....	□	□	902,732	□	(902,732)	□
Accounts payable.....	123,070	□	69,221	83,394	(123,070)	152,615
Book overdraft.....	□	6,983	103,694	10,255	□	120,932
Accrued liabilities .....	27,974	77,287	166,281	65,514	(65,800)	271,256
Deferred incomes taxes, net....	1,182	7,977	□	8,723	(9,159)	8,723
Total current liabilities.....	162,626	93,405	1,254,412	243,087	(1,100,761)	652,769
Long-term debt, excluding current portion .....	658,597	219,252	21,743	1,925	□	901,517
Notes payable .....	□	□	895,000	□	(895,000)	□
Deferred revenue, excluding current portion.....	158,353	8	362	□	□	158,723
Deferred income taxes, net.....	□	□	263,890	1,384	(114,500)	150,774
Other noncurrent liabilities .....	□	12,014	16,337	21,742	□	50,093
Total liabilities .....	979,576	324,679	2,451,744	268,138	(2,110,261)	1,913,876
Total stockholder's equity ....	1,394,939	2,350,412	(331,757)	870,174	(2,888,829)	1,394,939
Total liabilities and stockholder's equity.....	□2,374,515	□2,675,091	□2,119,987	□1,138,312	□(4,999,090)	□3,308,815

**Statements of operations**  
**Thirteen weeks ended March 30, 2008**  
(in thousands)

	JBS USA Holdings parent guarantor		JBS USA, LLC issuer		Subsidiary guarantors	Subsidiary non- guarantors	Eliminations/ adjustments		Total
Net sales .....	□	□	□	□	□2,072,651	□389,006	□	□	□2,461,657
Cost of goods sold .....		□		□	2,071,626	379,787		□	2,451,413
Gross profit .....		□		□	1,025	9,219		□	10,244
Selling, general and administrative expenses .....		□		□	26,765	4,277		□	31,042
Foreign currency translation gains .....		□		□	(26)	(12,588)		□	(12,614)
Other income .....		□		□	(3,543)	(239)			(3,782)
Loss (gain) on sales of property, plant and equipment .....		□		□	(151)	170			19
Interest expense, net .....		8,772		□	(305)	(359)		□	8,108
Income (loss) before income taxes .....		(8,772)		□	(21,715)	17,958		□	(12,529)
Income tax expense .....		□		□	1,827	3,786		□	5,613
Income (loss) before equity in earnings of consolidated subsidiaries .....		(8,772)		□	(23,542)	14,172		□	(18,142)
Equity in earnings of consolidated subsidiaries .....		(9,370)		(9,370)	□	□		18,740	□
Net income (loss) .....		□(18,142)		□(9,370)	□ (23,542)	□ 14,172		□18,740	□ (18,142)

## Thirteen weeks ended March 29, 2009

(in thousands)

	JBS USA Holdings parent guarantor		JBS USA, LLC issuer		Subsidiary guarantors	Subsidiary non- guarantors	Eliminations/ adjustments		Total
Net sales .....	□	□	□	□	2,670,436	525,903	□	□	3,196,339
Cost of goods sold .....		□		□	2,611,139	512,219		□	3,123,358
Gross profit .....		□		□	59,297	13,684		□	72,981
Selling, general and administrative expenses .....	20,938			□	31,704	8,956		□	61,598
Foreign currency translation gains	□			□	(93)	(4,982)		□	(5,075)
Other income .....	□				(1,138)	(337)			(1,475)
Loss (gain) on sales of property, plant and equipment .....		□			61	119			180
Interest expense, net .....	12,217			□	3,134	(759)		□	14,592
Income (loss) before income taxes .....	(33,155)			□	25,629	10,687		□	3,161
Income tax expense .....	(12,035)			□	9,791	3,153		□	909
Income (loss) before equity in earnings of consolidated subsidiaries .....	(21,120)			□	15,838	7,534		□	2,252
Equity in earnings of consolidated subsidiaries .....	23,372	23,372			□	□		(46,744)	□
Net income (loss) .....	□	2,252	□	23,372	□	15,838	□	7,534	□
				□	(46,744)	□		2,252	

**Statement of cash flows**  
**Thirteen weeks ended March 30, 2008**  
(in thousands)

	JBS USA Holdings parent guarantor	JBS USA, LLC issuer	Subsidiary guarantors	Subsidiary non- guarantors	Eliminations/ adjustments	Total
Net cash flows provided by (used in) operating activities.....	□ (23,376)	□ (4,159)	□(124,219)	□ 22,843	□ □	□(128,911)
Cash flows from investing activities:						
Purchases of property, plant and equipment.....	□	(150)	(8,422)	(3,104)	□	(11,676)
Proceeds from sales of property, plant, and equipment.....	□	□	4	36	□	40
Investment activity with subsidiaries.....	(26,624)	□	□	□	26,624	□
Investment in bonds.....	□	(4,900)	□	□	□	(4,900)
Proceeds from sale of non- operating property .....	□	□	1,160	□	□	1,160
Net cash flows provided by (used in) investing activities.....	(26,624)	(5,050)	(7,258)	(3,068)	26,624	(15,376)
Cash flows from financing activities:						
Payments of short-term debt .....	(400,000)	□	□	(16,980)	□	(416,980)
Payments of long term debt and capital lease obligation .....	□	(118)	(250)	□	□	(368)
Change in overdraft balances .....	□	(6,224)	(4,293)	□	□	(10,517)
Capital contributions .....	450,000	50,000	□	□	(50,000)	450,000
Dividend payment to parent.....	□	(23,376)	□	□	23,376	□
Net investments and advances/(distributions).....	□	(124,490)	134,543	(10,053)	□	□
Net cash flows provided by (used in) financing activities.....	50,000	(104,208)	130,000	(27,033)	(26,624)	22,135
Effect of exchange rates on cash....	□	□	□	634	□	634
Net change in cash and cash equivalents.....	□	(113,417)	(1,477)	(6,624)	□	(121,518)
Cash and cash equivalents, beginning of period .....	37	184,012	2,047	12,787	□	198,883
Cash and cash equivalents, end of period .....	□ 37	□ 70,595	□ 570	□ 6,163	□ □	□ 77,365

**Statement of cash flows**  
**Thirteen weeks ended March 29, 2009**  
(in thousands)

	JBS USA Holdings parent guarantor	JBS USA, LLC issuer	Subsidiary guarantors	Subsidiary non- guarantors	Eliminations/ adjustments	Total
Net cash flows provided by operating activities.....	□□	□(31,317)	□ 56,315	□ 26,005	□□	□ 51,003
Cash flows from investing activities:						
Purchase of property, plant and equipment.....	□	□	(26,712)	(8,477)	□	(35,189)
Proceeds from sales of property, plant and equipment.....	□	□	□	15	□	15
Issuance of notes receivable .....	□	□	□	(171,266)	□	(171,266)
Net cash flows provided by (used in) investing activities.....	□	□	(26,712)	(179,728)	□	(206,440)
Cash flows from financing activities:						
Net borrowings (payments) of revolving credit facility.....	□	95,514	□	1,292	□	96,806
Payments of short-term debt.....	□	□	(257)	(77)	□	(334)
Payments of long-term debt and capital lease obligations .....	□	(230)	(566)	(386)	□	(1,182)
Change in overdraft balances .....	□	(1,394)	(31,185)	(7,022)	□	(39,601)
Net investments and advances □ (distributions).....	□	1,028	6,707	(7,735)	□	□
Net cash flows provided by (used in) financing activities.....	□	94,918	(25,301)	(13,928)	□	55,689
Effect of exchange rates on cash .....	□	□	□	1,700	□	1,700
Net change in cash and cash equivalents.....	□	63,601	4,302	(165,951)	□	(98,048)
Cash and cash equivalents, beginning of period .....	36	32,096	4,372	218,281	□	254,785
Cash and cash equivalents, end of period .....	□36	□ 95,697	□ 8,674	□ 52,330	□□	□ 156,737

## Note 15. Terminated acquisition

On February 29, 2008, JBS USA Holdings entered into an agreement with National Beef to acquire all of the outstanding membership interests for a combination of approximately \$465.0 million cash, \$95.0 million in JBS common stock (the purchase price) and the assumption of debt.

On October 20, 2008, the United States Department of Justice ("DOJ") filed an injunction to stop the Company's planned acquisition of National Beef.

On February 18, 2009, an agreement was reached with the sellers of National Beef whereby JBS USA Holdings will terminate the acquisition process of National Beef effective February 23, 2009. All related litigation with the DOJ was terminated. As a result of the agreement JBS USA Holdings agreed to reimburse the seller's shareholders a total \$19.9 million as full and final settlement of any and all liabilities related to the potential acquisition. This payment including related legal costs is reflected in Corporate and other segment for the thirteen weeks ended March 29, 2009.

## Note 16. Subsequent events

On April 27, 2009 the Credit Agreement was amended to allow the execution of the senior unsecured notes of JBS USA, LLC described below. Under the amendment, the existing limitation on distributions between JBS USA, LLC and JBS USA Holdings was amended to allow for the proceeds of the senior unsecured bond offering, less transaction expenses and \$100.0 million retained by JBS USA, LLC to be remitted to JBS USA Holdings as a one time distribution. Also, the unused line fee was increased from 37.5 basis points to 50 basis points.

On April 27, 2009, JBS USA, LLC, a wholly owned subsidiary, issued \$700 million of senior unsecured notes. Interest on these notes accrues at a rate of 11.625% per annum and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2009. The principal amount of these notes is payable in full on May 1, 2014. The proceeds net of expenses were \$650.8 million and were used to repay \$100.0 million on the Credit Agreement and the balance was used to repay intercompany debt and accrued interest owed to JBS S.A. These notes are guaranteed by JBS S.A., us, JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A.), and each of our U.S. restricted subsidiaries that guarantee our senior secured revolving facility (subject to certain exceptions).

*Covenants.* The indenture for the 11.625% senior unsecured notes due 2014 contains customary negative covenants that limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness based on net debt to EBITDA ratio;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to our shareholders;
- permit restrictions on dividends and other restricted payments by its restricted subsidiaries;
- enter into related party transactions;
- enter into sale/leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

*Events of default.* The indenture also contains customary events of default, including failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare such principal and accrued interest on the notes to be immediately due and payable.

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS HU Liquidity Management LLC into one note with a stated interest rate of 12% and a 10 year maturity.

On April 28, 2009, the Company received \$50 thousand; including principal plus interest from an executive officer (see Note 10).

Beginning in mid-April 2009 the world press began publicizing the occurrence of regionalized influenza outbreaks which were linked on a preliminary basis to a hybrid avian/swine/human virus. As a result commencing on April 14, 2009 several foreign countries including Russia, Thailand, Ukraine, Communist China, and the Philippines closed their borders to some or all pork produced in the affected states in the USA or other affected regions in the world. The company is not able to assess whether or when the influenza outbreak might lessen or whether or when additional countries might impose restrictions on the importation of pork products from the USA, nor whether or when the existing import bans might be lifted.

On April 24, 2009, the Company issued a forgivable promissory note in the amount of \$235 thousand to an officer of the Company. The note bears interest at 5.25% and will be forgiven in four equal installments on the anniversary date of the loan as long as the executive continues to be an employee. If the employee is terminated for cause the entire note balance plus accrued interest will be due and payable on the termination date.



**BDO Seidman, LLP**  
Accountants and Consultants

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Board of Directors  
JBS USA Holdings, Inc.  
Greeley, Colorado

We have audited the accompanying consolidated balance sheet of JBS USA Holdings, Inc. as of December 28, 2008 and the related consolidated statements of operations, stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JBS USA Holdings, Inc. at December 28, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

□ BDO Seidman, LLP

Dallas, Texas  
July 21, 2009



**JBS USA Holdings, Inc.**  
**An indirect subsidiary of JBS S.A.**  
**Consolidated balance sheet**  
**December 28, 2008**  
(dollars in thousands, except per share data)

**Assets**

Current assets:

Cash and cash equivalents.....	□ 254,785
Accounts receivable, net of allowance for doubtful accounts of □4,142.....	588,985
Inventories, net.....	649,000
Deferred income taxes, net.....	5,405
Other current assets.....	85,521
Total current assets.....	1,583,696
Property, plant, and equipment, net.....	1,229,316
Goodwill.....	147,855
Other intangibles, net.....	304,967
Notes Receivable.....	1,630
Deferred income taxes, net.....	15,500
Other assets.....	32,607
Total assets.....	□3,315,571

**Liabilities and stockholder's equity**

Current liabilities:

Short-term debt.....	□ 67,012
Current portion of long-term debt.....	4,499
Current portion of deferred revenue.....	38,219
Accounts payable.....	192,697
Book overdraft.....	160,532
Deferred income taxes, net.....	8,587
Accrued liabilities.....	283,069
Total current liabilities.....	754,615
Long-term debt, excluding current portion.....	806,808
Deferred revenue.....	163,064
Deferred income taxes, net.....	150,670
Other non-current liabilities.....	52,164
Total liabilities.....	1,927,321

Commitments and contingencies

Stockholder's equity:

Common stock: par value □01 per share, 500,000,000 authorized, 100 shares issued and outstanding.....	□
Additional paid-in capital.....	1,400,159
Retained earnings.....	49,512
Accumulated other comprehensive loss.....	(61,421)
Total stockholder's equity.....	1,388,250
Total liabilities and stockholder's equity.....	□3,315,571

*The accompanying notes are an integral part of this consolidated financial statement.*

**JBS USA Holdings, Inc.**  
**An indirect subsidiary of JBS S.A.**  
**Consolidated statement of operations**  
**For the fifty-two weeks ended December 28, 2008**  
(dollars in thousands, except per share data )

	<b>The fifty-two weeks ended December 28, 2008</b>
Gross sales .....	□12,424,274
Less deductions from sales.....	(61,993)
Net sales .....	12,362,281
Cost of goods sold .....	11,917,777
Gross profit .....	444,504
Selling, general, and administrative expenses.....	148,785
Foreign currency transaction losses .....	75,995
Other income, net.....	(10,107)
Loss on sales of property, plant, and equipment .....	1,082
Interest expense, net.....	36,358
Income before income tax expense.....	192,391
Income tax expense .....	31,287
Net income .....	□161,104
<i>Income per common share:</i>	
Basic .....	□1,611,040.00
Diluted .....	□1,611,040.00
<i>Weighted average shares:</i>	
Basic .....	100
Diluted .....	100

The accompanying notes are an integral part of this consolidated financial statement.

**JBS USA Holdings, Inc.**  
**An indirect subsidiary of JBS S.A.**  
**Consolidated statement of cash flows**  
**for the fifty-two weeks ended**  
**December 28, 2008**  
(dollars in thousands)

<b>Cash flows from operating activities:</b>	
Net income .....	□ 161,104
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation .....	75,756
Amortization of intangibles .....	16,618
Amortization of debt issuance costs .....	1,815
Loss on sale of property, plant, and equipment .....	1,082
Deferred income taxes .....	5,686
Foreign currency transaction gains .....	(13,065)
<b>Change in assets and liabilities, net of impact of acquisitions:</b>	
Restricted cash .....	31,479
Accounts receivable, net .....	(74,445)
Inventories .....	(84,489)
Other current assets .....	(30,088)
Accounts payable and accrued liabilities .....	15,928
Noncurrent assets .....	(1,513)
Noncurrent liabilities .....	1,279
Deferred revenue .....	175,000
Net cash flows provided by operating activities .....	<u>282,147</u>
<b>Cash flows from investing activities:</b>	
Purchases of property, plant, and equipment .....	(118,320)
Proceeds from sales of property, plant, and equipment .....	530
Investment in bonds .....	(1,000)
Proceeds from sale of nonoperating real property .....	2,537
Notes receivable and other .....	(89)
Acquisition of businesses, net of cash acquired .....	(667,397)
Net cash flows used in investing activities .....	<u>(783,739)</u>
<b>Cash flows from financing activities:</b>	
Net borrowings of revolver .....	127,926
Proceeds from debt issuance .....	750,000
Payments of short-term debt .....	(750,106)
Payments of long-term debt and capital lease obligations .....	(3,577)
Change in overdraft balances .....	10,251
Investment from parent .....	450,000
Debt issuance costs .....	(13,229)
Net cash flows provided by financing activities .....	<u>571,265</u>
Effect of exchange rate changes on cash .....	<u>(13,771)</u>
Net change in cash and cash equivalents .....	55,902
Cash and cash equivalents, beginning of period .....	198,883
Cash and cash equivalents, end of period .....	□ <u>254,785</u>
<b>Non-cash investing and financing activities:</b>	
Construction in process under deemed capital lease .....	□ <u>9,166</u>
Reduction of long-term debt .....	□ <u>90,910</u>
Debt assumed from Tasman acquisition .....	□ <u>52,137</u>
<b>Supplemental information:</b>	
Cash paid for interest .....	□ <u>34,895</u>
Cash paid for income taxes .....	□ <u>11,735</u>

*The accompanying notes are an integral part of this consolidated financial statement*

**JBS USA Holdings, Inc.**  
**An indirect subsidiary of JBS S.A.**  
**Consolidated statement of stockholder's equity**  
**For the fifty-two weeks ended December 28, 2008**  
(dollars in thousands)

	Common stock issued/ outstanding	Common stock	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income/(loss)	Total stockholder's equity
Balance at December, 30, 2007 .....	100	□□	□ 950,159	□(111,592)	□ 251	□ 838,818
Capital contributions.....	□	□	450,000	□	□	450,000
Comprehensive income (loss):						
Net income.....	□	□	□	161,104	□	161,104
Derivative financial instrument adjustment, net of tax of □39.....	□	□	□	□	55	55
Foreign currency translation adjustment .....	□	□	□	□	(61,727)	(61,727)
Total comprehensive income.....						99,432
Balance at December 28, 2008 .....	100	□□	□1,400,159	□49,512	□(61,421)	□1,388,250

*The accompanying notes are an integral part of this consolidated financial statement.*

## Note 1. Description of business

JBS USA Holdings, Inc. ("JBS USA Holdings" or the "Company"), formerly known as JBS USA, Inc. is a Delaware corporation. On December 29, 2008, JBS USA, was renamed JBS USA, LLC and converted from a C corporation to a limited liability company. The operations of the Company and its subsidiaries constitute the operations of JBS USA Holdings as reported under accounting principles generally accepted in the United States of America ("GAAP"). JBS USA Holdings, Inc. ("JBS USA Holdings") owns 100% of the issued and outstanding capital stock of JBS USA. JBS USA Holdings, Inc. is an indirect subsidiary of JBS S.A., a Brazilian company ("JBS").

JBS USA Holdings processes, prepares, packages, and delivers fresh, further processed and value-added beef, pork and lamb products for sale to customers in the United States and in international markets. JBS USA Holdings sells its meat products to customers in the foodservice, international, further processor, and retail distribution channels. The Company also produces and sells by-products that are derived from its meat processing operations, such as hides and variety meats, to customers in various industries.

JBS USA Holdings conducts its domestic beef and pork processing businesses through its wholly owned subsidiaries Swift Beef Company ("Swift Beef"), Swift Pork Company ("Swift Pork") and JBS Packerland ("JBS Packerland"), formerly known as Smithfield Beef Group and its Australian beef business through Swift Australia Pty. Ltd. ("Swift Australia"). We have two reportable segments comprised of Beef and Pork which, for the fifty-two weeks ended December 28, 2008, represented approximately 80.6% and 19.4% of net sales, respectively. The Company operates eight beef processing facilities, three pork processing facilities, one lamb slaughter facility, one value-added facility, and eleven feedlots in the United States and ten processing facilities and five feedlots in Australia. Three of the processing facilities in Australia process lamb, mutton and veal along with beef and a fourth processes only lamb, mutton and veal.

## Note 2. Acquisition and refinancing of Swift Foods Company

On July 11, 2007, JBS acquired the Company (the "Acquisition"). Concurrent with the closing of the Acquisition, the entity formerly known as Swift Foods Company was renamed JBS USA, Inc. During the third quarter of the current fiscal year, this entity was renamed JBS USA Holdings, Inc. The aggregate purchase price for the Acquisition was \$1,470.6 million (including approximately \$48.5 million of transaction costs). The Company also refinanced its debt, the debt of its subsidiaries, and the outstanding debt assumed in the Acquisition which collectively were paid off using proceeds from \$750 million of various debt instruments (see Note 8) and additional equity contributions from JBS. As a result of the Acquisition, the consolidated financial statements of JBS USA Holdings provided herein reflect the acquisition being accounted for as a purchase in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141") and push down accounting was applied in accordance with the guidance in Staff Accounting Bulletin ("SAB") No. 54 to the consolidated financial statements.

## Note 3. Acquisition of Tasman Group

On March 4, 2008, JBS Southern Australia Pty. Ltd. ("JBS Southern"), an indirect subsidiary of JBS USA Holdings entered into an agreement with Tasman Group Services, Pty. Ltd. ("Tasman Group") to purchase substantially all of the assets of Tasman Group in an all cash transaction ("Tasman Acquisition") and the purchase was completed on May 2, 2008. The assets acquired include six processing facilities and one feedlot located in Southern Australia. This acquisition provides additional capacity to continue to meet customer demand. The aggregate purchase price for the Tasman Acquisition was \$117.3 million (including approximately \$8.6 million of transaction costs), as shown below. JBS Southern also assumed approximately \$52.1 million of outstanding debt (see Note 8). The consolidated financial statements of the Company provided herein reflect the Tasman Acquisition being accounted for as a purchase in accordance with SFAS No. 141. The results of the Tasman Group are included in the Company's statement of operations from the date of acquisition.

The purchase price allocation is preliminary pending completion of independent valuations of assets and liabilities acquired in the area of identified intangibles and certain liabilities including, but not limited to deferred taxes. As such, the allocation of purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of May 2, 2008 (in thousands).

Purchase price paid to previous shareholders.....	□108,786
Fees and direct expenses .....	8,555
<b>Total purchase price.....</b>	<b>□117,341</b>
Purchase price allocation:	
Current assets and liabilities.....	□(27,942)
Property, plant, and equipment.....	157,396
Deferred tax liability .....	(3,539)
Goodwill .....	□
Other noncurrent assets and liabilities, net .....	(8,574)
<b>Total purchase price allocation .....</b>	<b>□117,341</b>

#### Note 4. Acquisition of Smithfield Beef Group & Five Rivers Cattle Feeding

On March 4, 2008, JBS and Smithfield Foods, Inc. ("Smithfield Foods") entered into a Stock Purchase Agreement ("Smithfield Agreement"). Pursuant to the Smithfield Agreement, JBS executed through the Company the acquisition of Smithfield Beef Group, Inc. ("Smithfield Beef") for \$563.2 million in cash (including \$26.1 million of transaction related costs) and contributed its ownership in Smithfield Beef to the Company (Smithfield Acquisition). The purchase included 100% of Five Rivers Ranch Cattle Feeding LLC ("Five Rivers"), which was held by Smithfield Beef in a 50:50 joint venture with Continental Grain Company ("CGC," formerly ContiGroup Companies, Inc.). On October 23, 2008, the acquisition of Smithfield Beef was completed. In conjunction with the closing of this purchase Smithfield Beef was renamed JBS Packerland and Five Rivers was renamed JBS Five Rivers Cattle Feeding LLC ("JBS Five Rivers"). The assets acquired include four processing plants and eleven feedlots. This acquisition provides additional capacity to continue to meet customer demand.

The purchase excluded substantially all live cattle inventories held by Smithfield Beef and Five Rivers as of the closing date, together with the associated debt. The excluded live cattle were raised by JBS Five Rivers after closing for a negotiated fee.

The consolidated financial statements of the Company reflect the acquisition being accounted for as a purchase in accordance with SFAS No. 141. The acquired goodwill is treated as non-deductible for tax purposes. The results of Smithfield Beef and JBS Five Rivers are included in the Company's statement of operations from the date of acquisition.

The purchase price allocation is preliminary pending completion of independent valuations of assets and liabilities acquired including, but not limited to deferred taxes. As such, the allocation of purchase price presented below is preliminary and subject to change. The allocation presented below reflects the estimated fair value of the individual assets and liabilities as of October 23, 2008 (in thousands).

Purchase price paid to previous shareholders.....	□ 537,068
Fees and direct expenses .....	26,134
<b>Total purchase price.....</b>	<b>□ 563,202</b>
Purchase price allocation:	
Current assets and liabilities.....	□ 44,146
Property, plant, and equipment.....	423,955
Deferred tax liability .....	(142,997)
Goodwill .....	94,904
Intangible assets (see Note 5).....	138,023
Other noncurrent assets and liabilities, net .....	5,171
<b>Total purchase price allocation .....</b>	<b>□ 563,202</b>

Had the Smithfield Acquisition occurred at the beginning of fiscal 2008, unaudited pro forma net sales, net income and net income per share would have been \$15.4 billion, \$222.3 million and \$2,222,960.00 respectively.

## Note 5. Basis of presentation and accounting policies

### **Consolidation**

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

### **Use of estimates**

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments. Significant estimates made by the Company include the allowance for doubtful accounts, reserves related to inventory obsolescence or valuation, insurance accruals, and income tax accruals.

### **Fiscal year**

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Sunday in December. The consolidated financial statements have been prepared for the fifty-two weeks ended December 28, 2008.

### **Cash and cash equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying value of these assets approximates their fair market value. Financial instruments which potentially subject JBS USA Holdings to concentration of credit risk consist principally of cash and temporary cash investments. At times, cash balances held at financial institutions were in excess of Federal Deposit Insurance Corporation insurance limits. JBS USA Holdings places its temporary cash investments with high quality financial institutions. The Company believes no significant credit risk exists with respect to these cash investments.

### **Accounts receivable and allowance for doubtful accounts**

The Company has a diversified customer base which includes some customers who are located in foreign countries. The Company controls credit risk related to accounts receivable through credit worthiness reviews, credit limits, letters of credit, and monitoring procedures.

The Company evaluates the collectability of its accounts receivable based on a general analysis of past due receivables, and a specific analysis of certain customers which management believes will be unable to meet their financial obligations due to economic conditions, industry-specific conditions, historic or anticipated performance, and other relevant circumstances. The Company continuously performs credit evaluations and reviews of its customer base. The Company will provide an allowance for an account when collectability is not reasonably assured. The Company believes this process effectively mitigates its exposure to bad debt write-offs; however, if circumstances related to changes in the economy, industry, or customer conditions change, the Company may need to subsequently adjust the allowance for doubtful accounts.

The Company adheres to customary industry terms of net seven days. The Company considers all domestic accounts over 14 days as past due and all international accounts over 30 days past due. Activity in the allowance for doubtful accounts is as follows (in thousands):

Balance at December 30, 2007.....	□1,389
Fair value of allowance on acquired business .....	1,714
Bad debt expense .....	1,470
Write-offs, net of recoveries .....	(375)
Effect of exchange rates .....	(56)
Balance, end of period .....	□4,142

### **Inventories**

Inventories consist primarily of product, livestock, and supplies. Product inventories are considered commodities and are primarily valued based on quoted commodity prices, which approximate net realizable value less cost to complete. Due to a lack of equivalent commodity market data Australian product inventories are valued based on the lower of cost or net

realizable value less cost to sell. Livestock inventories are valued on the basis of the lower of first-in, first-out cost or market. Costs capitalized into livestock inventory include cost of feeder livestock, direct materials, supplies, and feed. Cattle and hogs are reclassified from livestock to work in progress at time of slaughter. Supply inventories are carried at historical cost. The components of inventories are as follows at December 28, 2008 (in thousands):

Livestock .....	□106,288
Product inventories:	
Raw material .....	16,599
Work in progress.....	53,115
Finished goods.....	386,399
Supplies.....	86,599
	□649,000

**Other current assets**

Other current assets include prepaid expenses which are amortized over the period the Company expects to receive the benefit.

**Property, plant and equipment**

Property, plant and equipment was recorded at fair value at the respective dates of the Acquisition, the Tasman Acquisition and the Smithfield Acquisition. Subsequent additions are recorded at cost. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment.....	5 to 15 years
Buildings and improvements.....	15 to 40 years
Leasehold improvements.....	shorter of useful life or the lease term

The costs of developing internal-use software are capitalized and amortized when placed in service over the expected useful life of the software. Major renewals and improvements that extend the useful life of the asset are capitalized while maintenance and repairs are expensed as incurred. The Company has historically and currently accounts for planned major maintenance activities as they are incurred in accordance with the guidance in the Financial Accounting Standards Board, (FASB) Staff Position (FSP) AUG Air-1: *Accounting for Planned Major Maintenance Activities*. Upon the sale or retirement of assets, the cost and related accumulated depreciation or amortization are eliminated from the respective accounts and any resulting gains or losses are reflected in earnings. Applicable interest charges incurred during the construction of assets are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. The Company capitalized □1.0 million of interest charges during the fifty-two weeks ended December 28, 2008. Assets held under capital lease are classified in property, plant, and equipment and amortized over the lease term. Capital lease amortization is included in depreciation expense. As of December 28, 2008, JBS USA Holdings had □28.5 million in commitments outstanding for capital projects including □14.5 million related to the Installment Bond Purchase Agreement, as discussed in Other Assets.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When future undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value, the Company compares the asset's estimated future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value and records a provision for impairment as appropriate.

Property, plant, and equipment, net are comprised of the following (in thousands) at December 28, 2008:

Land .....	□ 143,253
Buildings, machinery, and equipment.....	1,022,324
Property and equipment under capital lease .....	17,339
Furniture, fixtures, office equipment, and other .....	38,867
Construction in progress .....	88,732
	1,310,515
Less accumulated depreciation and amortization.....	(81,199)
	□1,229,316



Accumulated depreciation includes accumulated amortization on capitalized leases of approximately \$3.1 million as of December 28, 2008. For the fifty-two weeks ended December 28, 2008, the Company recognized \$64.6 million and \$27.8 million of depreciation and amortization expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively.

JBS USA Holdings monitors certain asset retirement obligations in connection with its operations. These obligations relate to clean-up, removal or replacement activities and related costs for "in-place" exposures only when those exposures are moved or modified, such as during renovations of its facilities. These in-place exposures include asbestos, refrigerants, wastewater, oil, lubricants and other contaminants common in manufacturing environments. Under existing regulations, JBS USA Holdings is not required to remove these exposures and there are no plans or expectations of plans to undertake a renovation that would require removal of the asbestos, nor the remediation of the other in place exposures at this time. The facilities are expected to be maintained and repaired by activities that will not result in the removal or disruption of these in place exposures. As a result, there is an indeterminate settlement date for these asset retirement obligations because the range of time over which JBS USA Holdings may incur these liabilities is unknown and cannot be reasonably estimated. Therefore, JBS USA Holdings cannot reasonably estimate and has not recorded the fair value of the potential liability.

### **Other assets**

Prior to the Acquisition, Swift Beef entered into an Installment Bond Purchase Agreement (the "Purchase Agreement") with the City of Cactus, Texas (the "City") effective as of May 15, 2007. Under the Purchase Agreement, Swift Beef agreed to purchase up to \$26.5 million of the "City of Cactus, Texas Sewer System Revenue Improvement and Refunding Bonds, Taxable Series 2007" to be issued by the City (the "Bonds"). The Bonds are being issued by the City to finance improvements to its sewer system (the "System") which is utilized by Swift Beef's processing plant located in Cactus, Texas (the "Plant") as well as other industrial users and the citizens of the community of Cactus. Swift Beef will purchase the Bonds in installments upon receipt of Bond installment requests from the City as the System improvements are completed through an anticipated completion date of June 2010. The interest rate on the Bonds is the six-month LIBOR plus 350 basis points, or 6.04% at December 28, 2008. The Bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption beginning on June 1, 2011. The principal and interest on the Bonds will be paid by the City from the net revenues of the System. At December 28, 2008, Swift Beef held \$12.0 million of the Bonds, which fall within Level 3 of the value hierarchy in accordance with SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157").

On May 21, 2007, in connection with the purchase of the Bonds, Swift Beef entered into a Water & Wastewater Services Agreement (the "Wastewater Agreement") with the City under which the City will provide water and wastewater services for the Plant at the rates set forth in the Wastewater Agreement. Swift Beef's payments for the City's treatment of wastewater from the Plant will include a capacity charge in the amount required to be paid by the City to pay the principal of, and interest on, the Bonds.

The Company has evaluated the impact of the FASB Emerging Issues Task Force ("EITF") No. 01-08, *Determining Whether an Arrangement Contains a Lease*, as well as EITF No. 97-10, *The Effect of Lessee Involvement in Asset Construction*, and has determined that it will be required to reflect the wastewater treatment facility as a capital asset (similar to a capital leased asset) as it will be the primary user of the wastewater facility based on projections of volume of throughput. As the City spends funds to construct the facility, the Company will record construction in process and the related construction financing. At December 28, 2008, \$8.8 million had been recognized as construction in process and construction financing by the Company.

### **Debt issuance costs**

Costs related to the issuance of debt are capitalized and amortized using the straight-line method to interest expense over the period the debt is outstanding. In conjunction with the Acquisition of JBS USA Holdings, \$1.8 million of fees were capitalized and included in other assets. JBS USA Holdings wrote off \$0.9 million of these costs during the fifty-two weeks ended December 28, 2008 as the amount under the related loan agreement was repaid in full (see Note 8).

On November 5, 2008, JBS USA Holdings entered into a \$400.0 million revolving credit facility (see Note 8). The debt issuance cost associated with this facility is being amortized using the straight-line method over the life of the agreement.

### **Goodwill and other intangibles**

Goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment at least on an annual basis or more frequently if impairment indicators arise, as required by SFAS No. 142, *Goodwill and Other Intangible Assets*. Identifiable intangible assets with definite lives are amortized over their estimated useful lives. Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in a

purchase business combination. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combination*, and after December 15, 2008 in accordance with SFAS No. 141R as discussed in *Recently Issued Accounting Pronouncements*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company estimates the fair value of its reporting units using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Following is a rollforward of goodwill by segment for the fifty-two weeks ended December 28, 2008 (in thousands):

	December 30, 2007	Adjustments	Translation gain	December 28, 2008
Beef .....	□52,565	□83,826	□(2,566)	□133,825
Pork .....	43,780	(29,750)	□	14,030
Total .....	□96,345	□54,076	□(2,566)	□147,855

The adjustments to goodwill are primarily related to the goodwill generated from the Smithfield Acquisition of □94.9 million (see Note 4) coupled with the release of the valuation allowance on deferred tax assets from the Acquisition of □42.9 million (see Note 12).

Other identifiable amortizing intangible assets consist of the following at December 28, 2008 (in thousands):

	Initial gross carrying amount	Adjustments	Accumulated amortization	Net carrying amount
Amortizing:				
Customer relationships .....	□129,000	□69,000	□(18,104)	□179,896
Customer contracts .....	15,400	6,078	(2,004)	19,474
Patents .....	5,200	(2,300)	(282)	2,618
Rental contract .....	3,507	□	(573)	2,934
Deferred revenue .....	1,483	□	(459)	1,024
Mineral rights .....	742	□	(65)	677
Subtotal amortizing intangibles .....	155,332	72,778	(21,487)	206,623
Non-amortizing:				
Trademark .....	33,300	50,800	□	84,100
Water rights .....	2,100	12,144	□	14,244
Subtotal non-amortizing intangibles .....	35,400	62,944	□	98,344
Total intangibles .....	□190,732	□135,722	□(21,487)	□304,967

The adjustments to intangibles result primarily from the Smithfield Acquisition (see Note 4). The adjustment to patents of □2.3 million reflects the impairment of a patent that no longer has a useful life.

The customer relationship intangible and customer contract intangible resulting from the Acquisition are amortized on an accelerated basis over 12 and 7 years respectively. The customer relationship and customer contract intangibles resulting from the Smithfield Acquisition are amortized on an accelerated basis over 21 and 10 years, respectively. These represent management's estimates of the period of expected economic benefit and annual customer profitability. Patents consist of exclusive marketing rights and are being amortized over the life of the related agreements on a straight line basis, which range from 6 to 20 years. For the fifty-two weeks ended December 28, 2008, the Company recognized □16.6 million of amortization expense. Based on amortizing assets recognized as of December 28, 2008, amortization expense for each of the next five years is estimated as follows (in thousands):

Estimated amortization expense for fiscal years ending (in thousands):	
2009 .....	□20,502
2010 .....	19,879
2011 .....	18,964
2012 .....	17,400
2013 .....	15,299

### **Overdraft balances**

The majority of JBS USA Holdings bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are included in the trade accounts payable balance, and the change in the related balance is reflected in financing activities on the statement of cash flows.

### **Insurance**

JBS USA Holdings is self-insured for employee medical and dental benefits and purchases insurance policies with deductibles for certain losses relating to worker's compensation and general liability. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of certain claims. Self-insured losses are accrued based upon periodic assessments of estimated settlements for known and anticipated claims, any resulting adjustments to previously recorded reserves are reflected in current period earnings. JBS USA Holdings has recorded a prepaid asset with an offsetting liability to reflect the amounts estimated as due for insured claims incurred and accrued but not yet paid to the claimant by the third party insurance company in accordance with SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

### **Environmental expenditures and remediation liabilities**

Environmental expenditures that relate to current or future operations and which improve operational capabilities are capitalized at time of incurrence. Expenditures that relate to an existing or prior condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remediation efforts are probable and the costs can be reasonably estimated.

### **Foreign currency**

For foreign operations, the local currency is the functional currency. Translation into US dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the period. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income (loss). Transaction gains and losses on US dollar denominated revolving intercompany borrowings between the Australian subsidiaries and the US parent are recorded in earnings. Translation gains and losses on US dollar denominated intercompany borrowings between the Australian subsidiaries and the US parent and which are deemed to be part of the investment in the subsidiary are recorded in other comprehensive income (loss). The balance of foreign currency translation adjustment in accumulated other comprehensive income at December 28, 2008 was a cumulative loss of \$(61.1) million.

### **Income taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. JBS USA allocates current and deferred taxes as if it were a separate taxpayer. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Beginning with the adoption of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48), as of May 28, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of FIN 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. JBS USA Holdings recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision.

### **Fair value of financial instruments**

The carrying amounts of JBS USA Holdings' cash and cash equivalents, short-term trade receivables, and payables, approximate their fair values due to the short-term nature of the instruments. Existing long-term debt was recorded at fair value as of the date of the Acquisition (see Note 2) and the Company believes this approximates its fair value at December 28, 2008. Long-term debt incurred since the Acquisition was recorded at fair value at the date of incurrence and is considered to be fair value at December 28, 2008 due to the proximity of the balance sheet date to the issuance of the debt and its variable interest rate (see Note 8).

### **Revenue recognition**

The Company's revenue recognition policies are based on the guidance in Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*. Revenue on product sales is recognized when title and risk of loss are transferred to customers (upon delivery based on the terms of sale), when the price is fixed or determinable, and when collectability is reasonably assured, and pervasive evidence of an arrangement exists. The Company recognizes sales net of applicable provisions for discounts, returns and allowances, which are accrued as product is invoiced to customers who participate in such programs based on contract terms and historical and current purchasing patterns.

### **Advertising costs**

Advertising costs are expensed as incurred. Advertising costs were \$5.6 million for the fifty-two weeks ended December 28, 2008.

### **Research and development**

The Company incurs costs related to developing new beef and pork products. These costs include developing improved packaging, manufacturing, flavor enhancing, and improving consumer friendliness of meat products. The costs of these research and development activities are less than 1% of total consolidated net sales for the fifty-two weeks ended December 28, 2008 and are expensed as incurred.

### **Shipping costs**

Pass-through finished goods delivery costs reimbursed by customers are reported in net sales while an offsetting expense is included in cost of goods sold.

### **Comprehensive income**

Comprehensive income consists of net income, foreign currency translation, and adjustments from derivative financial instruments.

### **Net income per share**

We present dual computations of net income (loss) per share. The basic computation is based on weighted average common shares outstanding during the period. The diluted computation reflects the same calculation as the basic computation as the Company does not have potentially dilutive common stock equivalents.

### **Derivatives and hedging activities**

JBS USA Holdings accounts for its derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities*, (SFAS No. 133), and its related amendment, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. The Company uses derivatives (e.g., futures and options) for the purpose of mitigating exposure to changes in commodity prices and foreign currency exchange rates. The fair value of each derivative is recognized in the balance sheet within current assets or current liabilities. Changes in the fair value of derivatives are recognized immediately in the statement of operations for derivatives that do not qualify for hedge accounting. For derivatives designated as a hedge and used to hedge an existing asset or liability, both the derivative and hedged item are recognized at fair value within the balance sheet with the changes in both of these fair values being recognized immediately in the statement of operations. For derivatives designated as a hedge and used to hedge an anticipated transaction, changes in the fair value of the derivatives are deferred in the balance sheet within accumulated other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction. Any ineffectiveness is recognized immediately in the statement of operations. Amounts deferred within accumulated other comprehensive income are recognized in the statement of operations upon the completion of the related underlying transaction.

Gains and losses from energy and livestock derivatives related to purchases are recognized in the statement of operations as a component of cost of goods sold upon change in fair value. While management believes these instruments help mitigate various market risks, they are not designated and accounted for as hedges under SFAS No. 133 as a result of the extensive recordkeeping requirements of this statement. Gains and losses from foreign currency derivatives and livestock derivatives related to future sales are recognized in the statement of operations as a component of net sales or as a component of other comprehensive income upon change in fair value.

### Recently issued accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161), which provides for enhanced disclosures about the use of derivatives and their impact on a Company's financial position and results of operations. This statement is effective for JBS USA Holdings for fiscal year 2009. The Company does not expect the adoption of SFAS No. 161 to have a material impact on its financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) is intended to provide greater consistency in the accounting and reporting of business combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any non-controlling interest in the acquiree at the acquisition date, measured at fair value at that date. This includes the measurement of the acquirer's shares issued as consideration in a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gains and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. One significant change in this statement is the requirement to expense direct costs of the transaction, which under existing standards are included in the purchase price of the acquired company. This statement also established disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for business combinations consummated after December 31, 2008. Also effective, as a requirement of the statement, after December 31, 2008 any adjustments to uncertain tax positions from business combinations consummated prior to December 31, 2008 will no longer be recorded as an adjustment to goodwill, but will be reported in income. During the thirteen weeks ended December 28, 2008, the Company expensed \$1.9 million of cost previously capitalized related to the pending acquisition of National Beef Packing Company (National Beef) as the transaction did not close prior to December 15, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The provisions of SFAS No. 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles and expand disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007, with the exception of nonfinancial assets and liabilities that are not currently recognized or disclosed at fair value in the financial statements on a recurring basis, for which SFAS No. 157 is effective for fiscal years beginning after November 15, 2008. Our adoption of SFAS 157 No. on January 1, 2008 did not have a significant effect on our consolidated financial position, results of operations, or cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 provides for enhanced financial reporting by enterprises involved with variable interest entities and is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact, if any, of SFAS No. 167 on our financial position, results of operations, and cash flows.

### Note 6. Accrued liabilities

Accrued liabilities consist of the following at December 28, 2008 (in thousands):

Self insurance reserves .	\$ 24,265
Salaries .	74,528
Taxes	15,825
Freight	38,645
Interest	19,672
Other .	110,134
<b>Total</b> .	<b>\$ 283,069</b>

Other accrued liabilities consist of items that are individually less than 5% of total current liabilities.

## Note 7. Derivative financial instruments

The Company utilizes various raw materials in its operations, including cattle, hogs, and energy, such as natural gas, electricity, and diesel fuel, which are all considered commodities. The Company considers these raw materials generally available from a number of different sources and believes it can obtain them to meet its requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond its control, such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. Generally, the Company purchases derivatives in an attempt to mitigate price risk related to its anticipated consumption of commodity inputs for periods of up to 12 months. The Company may enter into longer-term derivatives on particular commodities if deemed appropriate. As of December 28, 2008, the Company had derivative positions in place covering less than 1□ and 11□ of anticipated cattle and hog needs, respectively, through December 2009.

On December 31, 2007, the beginning of the current fiscal year, the Company adopted SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The standard is applicable to the fair value measurement where it is permitted or required under other accounting pronouncements.

SFAS No. 157 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company, not a market participant, if there is little available market data and the Company's own assumptions are considered by management to be the best available information.

In the case of multiple inputs being used in fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The adoption of SFAS No. 157 has not resulted in any significant changes to the methodologies used for fair value measurement. The Company uses derivatives for the purpose of mitigating exposure to market risk, such as changes in commodity prices and foreign currency exchange rates. The Company uses exchange-traded futures and options to hedge livestock commodities. The Company uses foreign currency positions, which are actively quoted by an independent financial institution, to mitigate the risk of foreign currency fluctuations in the markets in which it conducts business.

The fair value of derivative assets is recognized within other current assets while the fair value of derivative liabilities is recognized within accrued liabilities. At December 28, 2008, the fair value of derivatives recognized within other current assets was □54.1 million. The fair value of derivatives recognized within accrued liabilities was □17.0 million. The fair value measurements that are performed on a recurring basis fall within the level 1 of the fair value hierarchy. The amounts are as follows:

	<b>Level 1</b>
	<b>December 28, 2008</b>
<b>Assets:</b>	
Commodity derivatives .....	□42,087
Foreign currency rate derivatives .....	12,002
<b>Total fair value.....</b>	<b>□54,089</b>
<b>Liabilities:</b>	
Commodity derivatives .....	□16,392
Foreign currency rate derivatives .....	592
<b>Total fair value.....</b>	<b>□16,984</b>

As of December 28, 2008, the net deferred amount of derivative loss recognized in accumulated other comprehensive income was □0.3 million, net of tax. The Company anticipates these amounts will be transferred out of accumulated other comprehensive income and recognized within earnings over the next 12 months.

## Note 8. Long-term debt and loan agreements

JBS USA Holdings and its direct and indirect subsidiaries have entered into various debt agreements in order to finance the Acquisition, the Tasman Acquisition, the Smithfield Acquisition, and provide liquidity to operate the business on a go forward basis. As of December 28, 2008, debt outstanding consisted of the following (in thousands):

Short-term debt	
Secured credit facilities .....	□36,186
Unsecured credit facilities .....	30,826
<b>Total short-term debt</b> .....	<b>67,012</b>
Current portion of long-debt:	
Installment note payable .....	1,264
Capital lease obligations .....	3,235
<b>Total current portion of long-term debt</b> .....	<b>4,499</b>
Long-term debt:	
Loans payable to JBS .....	658,588
Installment note payable .....	10,025
Secured credit facilities .....	114,673
Capital lease obligations .....	23,522
<b>Long-term debt, less current portion</b> .....	<b>806,808</b>
<b>Total debt</b> .....	<b>□878,319</b>

The aggregate minimum principal maturities of debt for each of the five fiscal years and thereafter following December 28, 2008, are as follows (in thousands):

For the fiscal years ending December	Minimum principal maturities
2009 .....	□ 71,807
2010 .....	662,866
2011 .....	118,263
2012 .....	3,185
2013 .....	8,990
Thereafter .....	13,208
<b>Total minimum principal maturities</b> .....	<b>□878,319</b>

As of December 28, 2008, JBS USA Holdings had approximately □161.8 million of secured debt outstanding and approximately □20.9 million of outstanding letters of credit.

A summary of the components of interest expense, net is presented below (in thousands):

	The fifty-two weeks ended December 28, 2008
Interest on:	
Unsecured bank loans .....	□13,781
Unsecured credit facility .....	104
Loans payable to JBS .....	19,038
Capital lease interest .....	1,487
Bank fees .....	493
Other miscellaneous interest charges (i) .....	2,220
Debt issuance cost amortization .....	2,306
Secured credit facility .....	2,796
Less:	
Capitalized interest .....	(976)
Interest income .....	(4,891)
<b>Total interest expense, net</b> .....	<b>□36,358</b>

(i) Includes installment note interest expense of □0.53 million.

### **Description of indebtedness**

*Senior credit facilities*—On November 5, 2008, JBS USA entered into a secured revolving loan credit agreement (the "Credit Agreement") that allows borrowings up to \$400 million, and terminates on November 5, 2011. Up to \$75 million of the revolving credit facility is available for the issuance of letters of credit. Borrowings that are index rate loans will bear interest at the prime rate plus a margin of 2.25% (5.50% at December 28, 2008) while LIBOR rate loans will bear interest at the applicable LIBOR rate plus a margin of 3.25% (4.66% at December 28, 2008). At December 28, 2008, the borrowings totaled \$114.7 million. Upon approval by the lender, LIBOR rate loans may be taken for one, two, or three month terms, (or six months at the discretion of the Agent).

*Availability.* Availability under the Credit Agreement is subject to a borrowing base. The borrowing base is based on certain of JBS USA domestic wholly owned subsidiaries' assets as described below, with the exclusion of JBS Five Rivers Cattle Feeding. The borrowing base consists of percentages of eligible accounts receivable, inventory, and supplies and less certain eligibility and availability reserves.

*Security and guarantees.* Borrowings made by JBS USA are guaranteed by JBS Holdings and all domestic subsidiaries except Five Rivers are collateralized by a first priority perfected lien and interest in accounts receivable, inventory, and supplies.

*Covenants.* The Credit Agreement contains customary representations and warranties and a financial covenant that requires a minimum fixed charge coverage ratio of not less than 1.15 to 1.00. This ratio is only applicable if borrowing availability falls below the minimum threshold which is the greater of 20% of the aggregate commitments or \$70 million. The Credit Agreement also contains negative covenants that limit the ability of JBS USA and its subsidiaries to, among other things:

- have capital expenditures greater than \$175 million per year;
- incur additional indebtedness;
- create liens on property, revenue, or assets;
- make certain loans or investments;
- sell or dispose of assets;
- pay certain dividends and other restricted payments;
- prepay or cancel certain indebtedness;
- dissolve, consolidate, merge, or acquire the business or assets of other entities;
- enter into joint ventures other than certain permitted joint ventures or create certain other subsidiaries;
- enter into new lines of business;
- enter into certain transactions with affiliates and certain permitted joint ventures;
- agree to restrictions on the ability of the subsidiaries to make dividends;
- agree to enter into negative pledges in favor of any other creditor; and
- enter into sale-leaseback transactions and operating leases.

The Credit Agreement also contains customary events of default, including failure to perform or observe terms, covenants or agreements included in the Credit Agreement, payment of defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, entry of unsatisfied judgments or orders against a loan party or its subsidiaries, failure of any collateral document to create or maintain a priority lien, and certain events related to bankruptcy and insolvency or environmental matters. If an event of default occurs the lenders may, among other things, terminate their commitments, declare all outstanding borrowings to be immediately due and payable together with accrued interest, and fees and exercise remedies under the collateral documents relating to the Credit Agreement. At December 28, 2008, JBS USA was in compliance with all covenants.

Certain covenants of our indebtedness and debt guarantee terms include restrictions on our ability to pay dividends. As of December 28, 2008 the Company had \$22.7 million of retained earnings available to pay dividends.

*Installment note payable*—The installment note payable relates to JBS USA Holdings' financing of a capital investment. The note bears interest at LIBOR, the rate as of December 28, 2008 was 2.46% plus a fixed margin of 1.75% per annum with payments due on the first of each month and matures on August 1, 2013.



*Unsecured credit facility*—Swift Australia entered into an Australian dollar (A\$) denominated \$120 million unsecured credit facility on February 26, 2008 to fund working capital and letter of credit requirements. Under this facility A\$80 million can be borrowed for cash needs and A\$40 million is available to fund letters of credit. Borrowings are made at the cash advance rate (BBSY) plus a margin of 0.98%. The credit facility contains certain financial covenants which require the Company to maintain predetermined ratio levels related to interest coverage, debt coverage and tangible net worth. As of December 28, 2008, the Company is in compliance with all covenants and has USD \$30.8 million outstanding. This facility has an evergreen renewal term with review periods each June, commencing in 2009.

*Secured credit/ multi-option bridge facility*—JBS Southern entered into an Australian dollar denominated \$80 million secured multi-option bridge facility on July 2, 2008 to fund working capital and letter of credit requirements. JBS Southern property and plant assets secure this bridge facility. Under this facility A\$65 million can be borrowed for cash needs and to fund letters of credit. The remaining A\$15 million is used to facilitate daily transactional limits. Borrowings are made at the cash advance rate (BBSY) plus a margin of 1.60%. The multi-option bridge facility contains covenants and obligations which require the company to comply. As of December 28, 2008, the Company is in compliance with all covenants and has USD \$36.2 million outstanding. This facility has a fixed term and expired on December 31, 2008.

The following four loan agreements sum to the \$750 million described as debt related to the Acquisition in Note 2. As indicated below, as of December 28, 2008, there were no outstanding balances with respect to these four loan agreements.

*\$250 million loan agreement*—In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 1.50% with a maturity date of June 30, 2008. The loan agreement contained customary representations and warranties. The loan agreement was guaranteed by JBS SA. On February 22, 2008, this debt was repaid by the Company using cash received from its parent which has been reflected as an additional capital contribution.

*\$150 million loan agreement*—In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 0.75%. The loan matured on June 30, 2008. The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS. On February 27, 2008 this debt was repaid by the Company using cash received from its parent which has been reflected as an additional capital contribution.

*\$250 million credit agreement*—In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured credit agreement with interest payable quarterly based on three month LIBOR plus a margin of 0.75%. The agreement matured on July 7, 2008. The credit agreement contained customary representations, warranties and negative covenants. There were no maintenance financial covenants but the agreement contained an incurrence Consolidated Net Indebtedness to EBITDA ratio of 3.75 to 1.00 prior to December 31, 2007 and 3.60 to 1.00 commencing on January 1, 2008 and ending on the Maturity Date. The credit agreement was guaranteed by JBS. On July 3, 2008 this credit agreement was repaid with funds received from JBS through a loan repayable to JBS.

*\$100 million loan agreement*—In connection with the Acquisition, JBS USA Holdings entered into a one year unsecured loan agreement. The original 182 day loan agreement with interest payable at maturity based on six month LIBOR plus a margin of 0.8% matured on January 7, 2008. On January 3, 2008, an extension and modification agreement was signed changing the maturity date to July 7, 2008 and increasing the margin to 1.50%. The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS. On July 7, 2008 this loan agreement was repaid with funds received from JBS through a loan repayable to JBS.

The five loan agreements listed below sum to \$750 million and are reflected in the line item "Loans Payable to JBS" in the table at the beginning of this footnote. After issuance, the Company repaid \$91.4 million leaving a remaining balance owed as of December 28, 2008 of \$658.6 million.

*\$100 million loan payable to JBS*—On April 28, 2008, the Company entered into an unsecured loan agreement with its parent, JBS, for \$100 million with a maturity date of April 28, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the rate as of December 28, 2008 was 6.03%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received from this loan were used to fund the purchase of Tasman Group (see Note 3).

*\$25 million loan payable to JBS*—On May 5, 2008, the Company entered into an unsecured loan agreement with JBS for \$25 million with a maturity date of May 5, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the rate as of December 28, 2008 was 6.15%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received were used to fund operations.

**\$25 million loan payable to JBS** On June 10, 2008, the Company entered into an unsecured loan agreement with JBS for \$25 million with a maturity date of June 10, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, the rate as of December 28, 2008 was 5.94%; however the parties have reached an agreement to defer the 2008 interest payment. The funds received from this loan were used to fund operations.

**\$350 million loan payable to JBS** On June 30 2008, the Company entered into an unsecured loan agreement with JBS totaling \$350 million with a maturity date of June 30, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%, for \$250 million the rate as of December 28, 2008 was 6.12% and for \$100 million the rate as of December 28, 2008 was 6.13%. The funds received were used to pay outstanding unsecured bank debt.

**\$250 million loan payable to JBS** On October 21, 2008, the Company entered into an unsecured loan agreement with JBS for \$250 million with a maturity date of October 21, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. As of December 28, 2008 this rate was 4.13%. The funds received were used for the acquisition of Smithfield Beef and Five Rivers (see Note 4).

See Note 16 regarding subsequent event issuance of \$700 million 11.625% senior unsecured notes by a subsidiary in April 2009.

**Capital and operating leases** JBS USA Holdings and certain of its subsidiaries lease the corporate headquarters in Greeley, Colorado under capital lease; six distribution facilities located in New Jersey, Florida, Nebraska, Arizona, Colorado and Texas; marketing liaison offices in the US, Korea, Japan, Mexico, China, and Taiwan; its distribution centers and warehouses in Australia; and a variety of equipment under operating lease agreements that expire in various years between 2008 and 2019. Future minimum lease payments at December 28, 2008, under capital and non-cancelable operating leases with terms exceeding one year are as follows (in thousands):

	<b>Capitalized lease obligations</b>	<b>Noncancellable operating lease obligations</b>
<b>For the fiscal years ending December</b>		
2009 .....	\$ 4,639	\$17,431
2010 .....	4,166	13,426
2011 .....	3,571	11,016
2012 .....	2,955	4,850
2013 .....	2,874	4,054
Thereafter .....	13,432	5,113
Net minimum lease payments .....	31,637	\$55,890
Less: Amount representing interest .....	(4,880)	
Present value of net minimum lease payments .....	\$26,757	

Rent expense associated with operating leases was \$23.2 million for the fifty-two weeks ended December 28, 2008.

## Note 9. Deferred revenue

On October 22, 2008 we received a deposit in cash from a customer of \$175 million for the customer to secure an exclusive right to collect a certain byproduct of the beef fabrication process in all of our US beef plants. This agreement was formalized in writing as the Raw Material Supply agreement on February 27, 2008. The customer advance payment was recorded as deferred revenue. As byproduct is delivered to the customer over the term of the agreement the deferred revenue is recognized as revenue in the statement of operations. To provide the customer with security, in the unlikely event the Company was to default on our commitment, the payment is evidenced by a note which bears interest at 2 month LIBOR plus 200 basis points. In the event of default the note provides for a conversion into shares of common stock of JBS USA Holdings based on a formula stipulated in the note agreement. Assuming default had occurred on December 28, 2008 the conversion rights under the promissory note would have equaled 11.65% of the outstanding common stock, equal to 11.65 shares. The note also contains affirmative and negative covenants which require the Company to among other things: maintain defined market share; maintain certain tangible net worth levels; and comply in all material respects with the raw material supply agreement. The unamortized balance at December 28, 2008 was approximately \$173 million.

## Note 10. Defined contribution plans

### *Defined contribution plans*

The Company sponsors two tax-qualified employee savings and retirement plans (the "401(k) Plans") covering its US based employees, both union and non-union. Pursuant to the 401(k) Plans, eligible employees may elect to reduce their current compensation by up to the lesser of 75% of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plans. The 401(k) Plans provide for additional matching contributions by the Company, based on specific terms contained in the 401(k) Plans. On July 8, 2008, the Company amended its 401(k) Plans described above by eliminating the immediate vesting and instituting a five year vesting schedule for all non-production employees and reducing the maximum Company match to an effective 2% from the former rate of 5%. The trustee of the 401(k) Plans, at the direction of each participant, invests the assets of the 401(k) Plans in participant designated investment options. The 401(k) Plans are intended to qualify under Section 401 of the Internal Revenue Code. The Company's expenses related to the matching provisions of the 401(k) Plans totaled approximately \$6.3 million for the fifty-two weeks ended December 28, 2008. One of the Company's facilities participates in a multi-employer pension plan. The Company's contributions to this plan, which are included in cost of goods sold in the statement of operations, were \$0.3 million for the fifty-two weeks ended December 28, 2008. The Company also made contributions totaling \$0.6 million for the fifty-two weeks ended December 28, 2008, to a multiemployer pension related to former employees at the former Nampa, Idaho plant pursuant to a settlement agreement. As these payments are made, they are recorded as a reduction of the pre-acquisition contingency established during the Acquisition (see Note 2).

Employees of Swift Australia do not participate in the Company's 401(k) Plans. Under Australian law, Swift Australia contributes a percentage of employee compensation to a superannuation fund. This contribution approximates 9% of employee cash compensation as required under the Australian "Superannuation Act of 1997". As the funds are administered by a third party, once this contribution is made to the fund, Swift Australia has no obligation for payments to participants or oversight of the fund. The Company's expenses related to contributions to this fund totaled \$16.6 million for the fifty-two weeks ended December 28, 2008.

## Note 11. Related party transactions

JBS USA Holdings enters into transactions in the normal course of business with affiliates of JBS. Sales to affiliated companies included in net sales in the statement of operations for the fifty-two weeks ended December 28, 2008 were \$48.5 million. Amounts owed to JBS USA Holdings by affiliates as of December 28, 2008 totaled approximately \$20.2 million. Purchases from affiliated companies included in the statement of operations for the fifty-two weeks ended December 28, 2008 were \$0.9 million. No amounts were due to affiliates by JBS USA Holdings at December 28, 2008 related to these purchases.

The Company had a \$0.6 million receivable from an unconsolidated affiliate at December 28, 2008 related to the funding of debt issuance costs on behalf of the affiliate.

For the fifty-two weeks ended December 28, 2008, the Company recorded \$26 thousand of rental income related to real property leased to two of its executive officers. At December 28, 2008 no balances were due to the Company related to these transactions.

The Company had a \$25 thousand receivable from an executive officer at December 28, 2008 (see Note 16).

JBS USA Holdings guarantees, on an unsecured basis, \$300.0 million of 10.5% notes due 2016 issued by its parent, JBS. JBS USA Holdings meets the definition of a significant subsidiary contained in the indentures and therefore the board of directors of JBS USA Holdings approved the guarantee.

JBS USA Holdings received capital contributions from its parent of \$450.0 million during the fifty-two weeks ended December 28, 2008, \$50 million was used to fund operations and \$400.0 million was used to repay debt. During the fifty-two weeks ended December 28, 2008, the Company entered into various intercompany loans with JBS. These were contributed to JBS USA and used to fund operations and complete the Tasman Acquisition and Smithfield Acquisition (see Notes 3, 4, and 8).

*Guarantees*—JBS SA has notes payable outstanding of approximately \$300 million at December 28, 2008 that are due in 2016. The indenture governing the 2016 Notes requires any significant subsidiary (any subsidiary constituting at least 20% of JBS S.A.'s total assets or annual gross revenues, as shown on the latest financial statements of JBS S.A.) to guarantee all of JBS S.A.'s obligations under the 2016 Notes. The 2016 Notes are guaranteed by JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A.), our company and our subsidiaries, JBS USA Holdings, Inc., JBS USA, LLC and Swift Beef Company. Additional subsidiaries of JBS S.A. (including our subsidiaries) may be required to guarantee the 2016 Notes in the future.

*Covenants.* The indentures for the 2016 Notes contain customary negative covenants that limit the ability of JBS S.A. and its subsidiaries (including us) to, among other things:

- incur additional indebtedness;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to JBS S.A.'s shareholders;
- permit restrictions on dividends and other restricted payments by its subsidiaries;
- enter into related party transactions;
- enter into sale leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

*Events of default.* The indentures for the 2016 Notes also contain customary events of default, including for failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare such principal and accrued interest on the notes to be immediately due and payable.

*Cattle supply and feeding agreement*—Five Rivers is party to a cattle supply and feeding agreement with an unconsolidated affiliate (the Unconsolidated Affiliate). Five Rivers feeds and takes care of cattle owned by the Unconsolidated Affiliate. The Unconsolidated Affiliate pays Five Rivers for the cost of feed and medicine at cost plus a yardage fee on a per head per day basis. Beginning on June 23, 2009 or such earlier date on which Five Rivers' feed yards are at least 85% full of cattle and ending on October 23, 2011, the Unconsolidated Affiliate agrees to maintain sufficient cattle on Five Rivers' feed yards so that such feed yards are at least 85% full of cattle at all times. The agreement commenced on October 23, 2008 and continues until the last of the cattle on Five Rivers' feed yards as of October 23, 2011 are shipped to the Unconsolidated Affiliate, a packer or another third party.

*Cattle purchase and sale agreement*—The Company is party to a cattle purchase and sale agreement with the Unconsolidated Affiliate. Under this agreement, the Unconsolidated Affiliate agrees to sell to JBS USA, LLC, and JBS USA, LLC agrees to purchase from the Unconsolidated Affiliate, at least 500,000 cattle during each year from 2009 through 2011. The price paid by JBS USA, LLC is determined pursuant to JBS USA, LLC's pricing grid in effect on the date of delivery. The grid used for the Unconsolidated Affiliate is identical to the grid used for unrelated third parties. If the cattle sold by the Unconsolidated Affiliate in a quarter result in a breakeven loss (selling price below accumulated cost to acquire the feeder animal and fatten it to delivered weight) then JBS USA LLC will reimburse 40% of the average per head breakeven loss incurred by the Unconsolidated Affiliate on up to 125,000 head delivered to JBS USA, LLC in that quarter. If the cattle sold by the Unconsolidated Affiliate in a quarter result in a breakeven gain (selling price above the accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA LLC will receive from the Unconsolidated Affiliate an amount of cash equal to 40% of that per head gain on up to 125,000 head delivered to JBS USA, LLC in that quarter. There were no payments under the loss/profit sharing provisions of this agreement in fiscal 2008.

*Guarantee of unconsolidated affiliate's revolving credit facility*—The Unconsolidated Affiliate has a \$600.0 million secured revolving credit facility with a commercial bank. Its parent company has entered into a keepwell agreement with its subsidiary (the Unconsolidated Affiliate) whereby it will make contributions to the Unconsolidated Affiliate if the Unconsolidated Affiliate is not in compliance with its financial covenants under this credit facility. If the Unconsolidated Affiliate defaults on its obligations under the credit facility and such default is not cured by its parent under the keep-well agreement, Five Rivers is obligated for up to \$250.0 million of guaranteed borrowings plus certain other obligations and costs under this credit facility. This credit facility and the guarantee thereof are secured by the assets of the Unconsolidated Affiliate and the net assets of Five Rivers. This credit facility matures on October 7, 2011. This credit facility is used to acquire cattle which are then fed in the Five Rivers feed yards pursuant to the cattle supply and feeding agreement described above. The finished cattle are sold to JBS USA, LLC under the cattle purchase and sale agreement discussed above.

*Credit facility to the unconsolidated affiliate*—Five Rivers is party to an agreement with the Unconsolidated Affiliate pursuant to which Five Rivers has agreed to loan up to \$200.0 million in revolving loans to the Unconsolidated Affiliate. The loans are used by the Unconsolidated Affiliate to acquire feeder animals which are placed in Five Rivers feed yards for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.0% and interest is

payable at least quarterly. This credit facility matures October 7, 2011. During the period October 23, 2008 (when Five Rivers was acquired) through December 28, 2008, average borrowings were approximately \$131.0 million, and total interest accrued was approximately \$663,000 and was recognized as interest income on the statement of operations. As of December 28, 2008 the balance on the note was \$90 thousand.

*Variable interest entities*—As of December 28, 2008 the Company holds variable interests in the Unconsolidated Affiliate, which is considered a variable interest entity under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*. The Company has determined that it is not the primary beneficiary of the Unconsolidated Affiliate but has significant variable interests in the entity. The Company's significant variable interests are listed below and discussed further above:

- Five Rivers has agreed to provide up to \$200 million in loans to the Unconsolidated Affiliate;
- Five Rivers' guarantee of up to \$250 million of the Unconsolidated Affiliate's borrowings under its revolving credit facility plus certain other obligations and costs, which is secured by and limited to the net assets of Five Rivers; and
- JBS USA, LLC's rights and obligations under the cattle purchase and sale agreement.

The Company's maximum exposure to loss related to these variable interests is limited to the lesser of the net assets of Five Rivers (including loans made to the Unconsolidated Affiliate), or \$250 million plus certain other obligations and costs. As of December 28, 2008, the carrying value of Five Rivers' net assets is \$332.1 million. Potential losses under the terms of the cattle purchase and sale agreement depend on future market conditions.

## Note 12. Income taxes

The pre-tax income (loss) on which the provision for income taxes was computed is as follows (in thousands):

	For the Fifty-Two Weeks Ended December 28, 2008
Domestic .....	\$199,555
Foreign .....	(7,164)
<b>Total .....</b>	<b>\$192,391</b>

Income tax expense (benefit) includes the following current and deferred provisions (in thousands):

	For the Fifty-Two Weeks Ended December 28, 2008
<b>Current provision:</b>	
Federal .....	\$3,024
State .....	3,159
Foreign .....	19,418
<b>Total current tax expense .....</b>	<b>25,601</b>
<b>Deferred provision:</b>	
Federal .....	23,886
State .....	6,369
Foreign .....	(24,569)
<b>Total deferred tax expense .....</b>	<b>5,686</b>
<b>Total income tax expense</b>	<b>\$31,287</b>

The principal differences between the effective income tax rate, and the US statutory federal income tax rate, were as follows:

	<b>For the Fifty-Two Weeks Ended December 28, 2008</b>
Expected tax rate .....	35.0%
State income taxes (net of federal benefit) .....	3.3
Change in the valuation allowance due to a change in facts .....	(18.7)
Other, net .....	(3.3)
<b>Effective tax rate .....</b>	<b>16.3%</b>

Temporary differences that gave rise to a significant portion of deferred tax assets (liabilities) were as follows (in thousands):

	<b>December 28, 2008</b>
Inventory .....	(10,874)
Depreciation and amortization .....	(283,598)
Derivatives .....	(2,786)
All other current .....	(7,716)
All other long-term .....	(941)
<b>Gross deferred tax liability .....</b>	<b>(305,915)</b>
Accounts receivable reserve .....	2,026
Inventory .....	4,509
Interest .....	557
Accrued liabilities .....	16,625
Deferred revenue .....	329
Loss carryforwards .....	141,025
Tax credit carryforwards .....	14,322
Derivatives .....	225
All other long-term .....	30,771
<b>Total deferred tax asset .....</b>	<b>210,389</b>
Valuation allowance .....	(42,826)
<b>Net deferred tax assets .....</b>	<b>167,563</b>
<b>Net deferred tax liability .....</b>	<b>(138,352)</b>

At December 28, 2008, JBS USA Holdings has recorded deferred tax assets of \$141.0 million for loss carryforwards expiring in the years 2009 through 2029. In addition, JBS USA Holdings has \$14.3 million of tax credits of which \$10.3 million will expire in the years 2009 through 2028 and \$4.0 million will carryforward indefinitely.

Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its net operating losses to reduce its tax liability. JBS USA Holdings experienced an ownership change in January of 2007 and July of 2007. JBS USA Holdings believes that its net operating losses exceed the Section 382 limitation in the amount of \$14 million.

The valuation allowance for deferred tax assets as of December 31, 2007 was \$127 million. The net change in the total valuation allowance was a decrease of \$84 million in 2008. The valuation allowance as of December 28, 2008 was primarily related to loss and credit carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available

carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 28, 2008 will be allocated to income tax expense pursuant to FAS No. 141R.

JBS USA Holdings deems all of its foreign investments to be permanent in nature and does not provide for taxes on permanently reinvested earnings. It is not practicable to determine the amount of incremental taxes that might arise were these earnings to be remitted.

JBS USA Holdings follows the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). JBS USA's unrecognized tax benefits are \$8.1 million, the recognition of which would not have a material impact on the effective rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at December 30, 2007	\$8,300
Additions based on tax positions related to the current period	0
Additions for tax positions of prior years	0
Reductions for tax positions of prior years	0
Settlements	(200)
Balance at December 28, 2008	\$8,100

JBS USA Holdings recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. As of December 30, 2007, accrued interest and penalties were \$187 thousand. As of the year ended December 28, 2008, interest and penalty amounts related to uncertain tax positions were reduced to \$5 thousand as a result of a reduction in the amount recorded as uncertain tax positions. The unrecognized tax benefit and related penalty and interest balances at December 28, 2008 are expected to decrease by \$35 thousand within the next twelve months.

JBS USA Holdings files income tax returns in the U.S. and in various states and foreign countries. JBS USA Holdings is no longer subject to audit for US Federal income tax purposes for years prior to 2004. In other major jurisdictions where JBS USA Holdings operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2002.

### Note 13. Commitments and contingencies

On July 1, 2002, a lawsuit entitled Herman Schumacher et al v. Tyson Fresh Meats, Inc., et al was filed against a predecessor company, Tyson Foods, Inc., Excel Company, and Farmland National Beef Packing Company, L.P. in the United States District Court for the District of South Dakota seeking certification of a class of all persons who sold cattle to the defendants for cash, or on a basis affected by the cash price for cattle, during the period from April 2, 2001 through May 11, 2001 and for some period up to two weeks thereafter. The complaint alleges that the defendants, in violation of the Packers and Stockyards Act of 1921, knowingly used, without correction or disclosure, incorrect and misleading boxed beef price information generated by the USDA to purchase cattle offered for sale by the plaintiffs at a price substantially lower than was justified by the actual and correct price of boxed beef during this period. On April 12, 2006, the jury returned a verdict against three of the four defendants, including a \$2.3 million verdict against Swift Beef.

On February 15, 2007, a judgment was entered on the verdict by the court and on March 12, 2007 Swift Beef Company filed a notice of appeal. Nevertheless, a liability for the amount of the verdict was recorded during the final thirteen weeks of Smithfield Beef's fiscal year ended May 28, 2006. ConAgra Foods will indemnify Swift Company against any judgments for monetary damages or settlements arising out of this litigation or any future litigation arising from the same facts to the extent such damages together with any other indemnifiable claims under the acquisition agreement entered into the purchase of Swift Foods from ConAgra Foods, Inc. in 2002 exceed a minimum threshold of \$7.5 million. On January 29, 2008, Swift Beef was notified that the appeals court ruled in favor of the defendants on all counts. Swift Beef is now seeking the recovery of a portion of the legal fees it expended in this matter. As the claimants rights to appeal expired during the third quarter ended December 28, 2008 the reversal of the previously accrued trial court verdict amount was recorded as an adjustment to the Acquisition, not as a reduction of expenses on the Consolidated Statement of Operations.

Swift Beef is a defendant in a lawsuit entitled United States of America, ex rel, Ali Bahrani v. ConAgra, Inc., ConAgra Foods, Inc., ConAgra Hide Division, ConAgra Beef Company and Monfort, Inc., filed in the United States District Court for the District of Colorado in May 2000 by the relator on behalf of the United States of America and himself for alleged violations of the False Claims Act. Under the False Claims Act, a private litigant, termed the "relator," may file a civil action on the United States government's behalf against another party for violation of the statute, which, if proven, would entitle

the relator to recover a portion of any amounts recovered by the government. The lawsuit alleges that the defendants violated the False Claims Act by forging and/or improperly altering USDA export certificates used from 1991 to 2002 to export beef, pork, poultry and bovine hides to foreign countries. The lawsuit seeks to recover three times the actual damages allegedly sustained by the government, plus per-violation civil penalties.

On December 30, 2004, the United States District Court granted the defendants' motions for summary judgment on all claims. The United States Court of Appeals for the Tenth Circuit reversed the summary judgment on October 12, 2006 and remanded the case to the trial court for further proceedings consistent with the court's opinion. Defendants filed a Motion for Rehearing En Banc on October 26, 2006. On May 10, 2007, the Tenth Circuit denied that motion.

The case is now before the trial court. Issues in the case have been bifurcated. From April 28, 2008, to April 29, 2008 a jury trial was held on key significant issues. On May 1, 2008, a verdict was returned ruling in favor of the Company on all counts. If the verdict is not overturned on appeal the Relator's claims will be greatly limited and the issues in the case will be focused solely on bovine hides. This result significantly reduces the Company's possible liability from the original lawsuit. Swift Beef is unable to estimate what liability, if any, it may have in connection with this lawsuit or to reasonably estimate the amount or range of any loss that may result from this lawsuit at this time. In accordance with SFAS No. 5, *Accounting for Contingencies*, Swift Beef has not established a loss accrual for this claim. Pursuant to the acquisition agreement by which Swift Foods separated from ConAgra Foods in 2002, Swift Foods Company agreed to indemnify ConAgra Foods against all direct liabilities and damages relating to this lawsuit, including the costs and expenses of defending the lawsuit.

The Company is also a party to a number of other lawsuits and claims arising out of the operation of its businesses. Management believes the ultimate resolution of such matters should not have a material adverse effect on the Company's financial condition, results of operations, or liquidity. Attorney fees are expensed as incurred.

### **Commitments**

JBS USA Holdings enters into purchase agreements for livestock which require the purchase of either minimum quantities or the total production of the facility over a specified period of time. At December 28, 2008, the Company had commitments to purchase 33 million hogs through 2014 and approximately 29□ or approximately 7.5 million of our estimated cattle needs through short-term contracts. As the final price paid cannot be determined until after delivery, the Company has estimated market prices based on Chicago Mercantile Exchange traded futures contracts and applied those to either the minimum quantities required per the contract or management's estimates of livestock to be purchased under certain contracts to determine its estimated commitments for the purchase of livestock, which are as follows (in thousands):

<b>Estimated livestock purchase commitments for fiscal year ended:</b>	
2009 .....	□3,395,206
2010 .....	1,035,072
2011 .....	862,430
2012 .....	710,159
2013 .....	483,723
Thereafter .....	99,087

Through use of these contracts, the Company purchased approximately 70□ of its hog slaughter needs during the fifty-two weeks ended December 28, 2008.

### **Note 14. Business segments**

JBS USA Holdings is organized into two operating segments, which are also the Company's reportable segments: Beef and Pork. In the Beef segment, we conduct our domestic and international beef processing business, including the beef operations we acquired in the JBS Packerland Acquisition in 2008 and the beef, lamb, and sheep operations we acquired in the Tasman Acquisition in 2008. In the Pork segment, we conduct our domestic pork and lamb processing business. Segment operating performance is evaluated by the Chief Operating Decision Maker ("CODM"), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, based on Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). EBITDA is not intended to represent cash from operations as defined by GAAP and should not be considered as an alternative to cash flow or operating income as measured by GAAP. JBS USA Holdings believes EBITDA provides useful information about operating performance, leverage, and liquidity. The accounting policies of the segments are consistent with those described in Note 5. All intersegment sales and transfers are eliminated in consolidation.



On November 5, 2008, the Company entered into a new asset based revolving credit facility (see Note 8). The definition of EBITDA contained in that agreement requires EBITDA to be calculated as net income adding back taxes, depreciation, amortization and interest and the excluding certain non-cash items which affect net income. The Company has changed its definition of EBITDA to align with the definition contained in that agreement and as such the amounts below reflect the new definition.

**Beef** The majority of Beef's revenues are generated from US and Australian sales of fresh meat, which include chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. In addition, Swift Beef also sells beef by-products to the variety meat, feed processing, fertilizer, automotive and pet food industries. Furthermore, Australia's Foods Division produces value-added meat products including toppings for pizzas. On May 2, 2008, JBS Southern completed the Tasman Acquisition and now operates six processing facilities and one feedlot which are reported in the Beef segment (see Note 3). On October 23, 2008, the Company completed the Smithfield Acquisition adding four plants and eleven feedlots which are reported in the Beef segment (see Note 4).

**Pork** A significant portion of Pork's revenues are generated from the sale of products predominantly to retailers of fresh pork including trimmed cuts such as loins, roasts, chops, butts, picnics, and ribs. Other pork products, including hams, bellies, and trimmings are sold predominantly to further processors who, in turn, manufacture bacon, sausage, and deli and luncheon meats. The remaining sales are derived from by-products and from further-processed, higher-margin products. The lamb slaughter facility is included in Pork and accounts for less than 1% of total net sales.

**Corporate and other** Includes certain revenues, expenses, and assets not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

(in thousands)	The fifty-two weeks ended December 28, 2008
<b>Net sales</b>	
Beef.....	□ 9,975,510
Pork.....	2,438,049
Corporate and other.....	(51,278)
<b>Total</b> .....	<u>□12,362,281</u>
<b>Depreciation and amortization</b>	
Beef.....	□ 68,721
Pork.....	23,653
<b>Total</b> .....	<u>□ 92,374</u>
<b>EBITDA</b>	
Beef.....	□ 284,527
Pork.....	113,673
<b>Total</b> .....	398,200
Depreciation and amortization .....	(92,374)
Interest expense, net.....	(36,358)
Foreign currency transaction losses .....	(75,995)
Loss on fixed assets.....	(1,082)
<b>Income before income tax expense</b> .....	<u>□ 192,391</u>
<b>Capital expenditures</b>	
Beef.....	□ 89,237
Pork.....	29,083
<b>Total</b> .....	<u>□ 118,320</u>

Total assets by segment (in thousands):

(in thousands)	December 28, 2008
<b>Total assets</b>	
Beef.....	□ 2,838,619
Pork.....	519,995
Corporate and other.....	(43,043)
<b>Total</b> .....	□ 3,315,571

Sales by geographical area based on the location of the facility recognizing the sale (in thousands):

	The fifty-two weeks ended December 28, 2008
<b>Net sales</b>	
United States .....	□ 10,561,484
Australia .....	1,800,797
<b>Total</b> .....	□ 12,362,281

Sales to unaffiliated customers by location of customer (in thousands):

	The fifty-two weeks ended December 28, 2008
United States .....	□ 8,789,407
Japan .....	792,678
Australia .....	521,085
Mexico.....	296,680
China.....	77,623
Other .....	1,884,808
<b>Total</b> .....	□ 12,362,281

Long-lived tangible assets by location of assets (in thousands):

	December 28, 2008
<b>Long-lived assets:</b>	
United States .....	□ 906,044
Australia .....	360,400
Other .....	83
<b>Total</b> .....	□ 1,266,527

No single customer or supplier accounted for more than 10% of net sales or cost of goods sold, respectively, during the fifty-two weeks ended December 28, 2008.

Long-lived assets consist of property, plant, and equipment, net of depreciation, and other assets less debt issuance costs, net, of \$12.5 million as of December 28, 2008.

## Note 15. Terminated acquisition

On February 29, 2008, JBS USA Holdings entered into an agreement with National Beef to acquire all of the outstanding membership interests for a combination of approximately \$465.0 million cash, \$95.0 million in JBS common stock (the purchase price) and the assumption of debt.

On October 20, 2008, the United States Department of Justice ("DOJ") filed an injunction to stop the Company's planned acquisition of National Beef.

On February 18, 2009 an agreement was reached with the sellers of National Beef whereby JBS USA Holdings will terminate the acquisition process of National Beef. All related litigation with the DOJ will also be terminated. As a result of the agreement JBS USA Holdings has agreed to reimburse the seller's shareholders a total \$19.9 million as full and final settlement of any and all liabilities related to the potential acquisition.

## Note 16. Subsequent events

On December 29, 2008, JBS USA, Inc., was renamed JBS USA, LLC. and converted from a C corporation to a limited liability company.

On January 12, 2009, the Company received \$25 thousand; including principal plus interest from an executive officer (see Note 11).

On January 27, 2009, the Company reached agreement with Smithfield Foods for final settlement of the working capital component of the purchase price pursuant to the Stock Purchase Agreement. The settlement calls for a payment of \$4.5 million from Smithfield Foods to the Company as full and final settlement of the working capital delivered at October 23, 2008. The Company recorded the settlement as a reduction of purchase price upon receipt.

On March 27, 2009, JBS S.A. assigned its five separate intercompany notes with JBS USA Holdings to JBS HU Liquidity Management LLC, a subsidiary of JBS, which is organized in the country of Hungary.

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS HU Liquidity Management LLC into one note with a stated interest rate of 12% and a 10 year maturity (see Note 8).

On April 27, 2009 the Credit Agreement was amended to allow the execution of the senior unsecured note offering of JBS USA, LLC described below. Under the amendment, the existing limitation on distributions between JBS USA, LLC and JBS USA Holdings was amended to allow for the proceeds of the senior unsecured bond offering, less transaction expenses and \$100 million retained by JBS USA, LLC to be remitted to JBS USA Holdings as a one time distribution. Also, the unused line fee was increased from 37.5 basis points to 50 basis points.

On April 27, 2009, JBS USA, LLC, a wholly owned subsidiary, issued \$700 million of senior unsecured notes. Interest on these notes accrues at a rate of 11.625% per annum and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2009. The principal amount of these notes is payable in full on May 1, 2014. The proceeds net of expenses were \$650.8 million and were used to repay \$100 million on the Credit Agreement and the balance was used to repay intercompany debt and accrued interest owed to JBS S.A. These notes are guaranteed by JBS S.A., us, JBS Hungary Holdings Kft. (a wholly owned, indirect subsidiary of JBS S.A.), and each of our U.S. restricted subsidiaries that guarantee our senior secured revolving facility (subject to certain exceptions).

*Covenants.* The indenture for the 11.625% senior unsecured notes due 2014 contains customary negative covenants that limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness based on net debt to EBITDA ratio;
- incur liens;
- sell or dispose of assets;
- pay dividends or make certain payments to our shareholders;
- permit restrictions on dividends and other restricted payments by its restricted subsidiaries;
- enter into related party transactions;
- enter into sale/leaseback transactions; and
- undergo changes of control without making an offer to purchase the notes.

*Events of default.* The indenture also contains customary events of default, including failure to perform or observe terms, covenants or other agreements in the indenture, defaults on other indebtedness if the effect is to permit acceleration, failure to make a payment on other indebtedness waived or extended within the applicable grace period, entry of unsatisfied judgments or orders against the issuer or its subsidiaries, and certain events related to bankruptcy and insolvency matters. If an event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding may declare such principal and accrued interest on the notes to be immediately due and payable.

Beginning in mid-April 2009 the world press began publicizing the occurrence of regionalized influenza outbreaks which were linked on a preliminary basis to a hybrid avian swine human virus. As a result commencing on April 14, 2009 several foreign countries including Russia, Thailand, Ukraine, Communist China, and the Philippines closed their borders to some or all pork produced in the affected states in the USA or other affected regions in the world. The company is not able to assess whether or when the influenza outbreak might lessen or whether or when additional countries might impose restrictions on the importation of pork products from the USA, nor whether or when the existing import bans might be lifted.

On April 24, 2009, the Company issued a forgivable promissory note in the amount of \$235 thousand to an officer of the Company. The note bears interest at 5.25% and will be forgiven in four equal installments on the anniversary date of the loan as long as the executive continues to be an employee. If the employee is terminated for cause the entire note balance plus accrued interest will be due and payable on the termination date.



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### Report of independent certified public accountants

Board of Directors

JBS USA Holdings, Inc. (formerly Swift Foods Company):

We have audited the accompanying consolidated balance sheets of JBS USA Holdings, Inc. (formerly Swift Foods Company) and subsidiaries (the Company) as of December 24, 2006 and July 10, 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal year ended December 24, 2006 and the 198 days ended July 10, 2007 (Predecessor) and the consolidated balance sheet as of December 30, 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for the 173 days ended December 30, 2007 (Successor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JBS USA Holdings, Inc. and subsidiaries as of December 24, 2006 and July 10, 2007 and the results of their operations and cash flows for the fiscal year ended December 24, 2006 and the 198 days ended July 10, 2007 (Predecessor) and as of December 30, 2007 and the results of their operations and cash flows for the 173 days ended December 30, 2007 (Successor) in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Minneapolis, Minnesota  
July 1, 2009

**JBS USA Holdings, Inc.**  
**A wholly owned subsidiary of JBS S.A.**  
**Consolidated balance sheets**  
(dollars in thousands)

	<u>Predecessor</u>		<u>Successor</u>
	December 24, 2006	July 10, 2007	December 30, 2007
<b>Assets</b>			
Current assets:			
Cash and cash equivalents.....	□ 83,420	□ 44,673	□ 198,883
Restricted cash .....	□	□	30,014
Accounts receivable, net of allowance for doubtful accounts of □1,030, □1,466 and □1,389, respectively	334,341	365,642	417,375
Inventories .....	457,829	487,598	466,756
Deferred income taxes, net.....	11,149	7,784	4,493
Other current assets .....	34,864	48,629	35,492
Total current assets .....	921,603	954,326	1,153,013
Property, plant, and equipment, net.....	487,427	505,172	708,056
Goodwill.....	6,811	□	96,345
Other intangibles, net.....	103,993	92,606	185,573
Deferred income taxes, net.....	□	□	5,434
Other assets .....	18,763	26,246	17,394
Total assets .....	□1,538,597	□1,578,350	□2,165,815
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Short-term debt.....	□ □	□ □	□ 776,287
Current portion of long-term debt.....	1,950	1,937	1,998
Accounts payable.....	179,939	122,821	179,650
Book overdraft.....	73,314	70,639	92,289
Deferred income taxes, net.....	6,696	9,323	12,885
Accrued liabilities .....	194,932	234,681	186,494
Total current liabilities.....	456,831	439,401	1,249,603
Long-term debt, excluding current portion .....	1,065,553	1,201,975	32,433
Deferred income taxes, net.....	38,914	23,878	19,688
Other non-current liabilities .....	17,389	11,914	25,273
Total liabilities.....	1,578,687	1,677,168	1,326,997
Commitments and contingencies (see Note 10)			
Stockholders' equity (deficit):			
Common stock: par value □01 per share, shares authorized, issued and outstanding of 221,359,000, 221,359,000 and 100, respectively .....	2,212	2,212	□
Additional paid-in capital.....	49,552	50,741	950,159
Treasury stock at cost, 1,784,584 shares at December 24, 2006 and July 10, 2007 .....	(1,814)	(1,814)	□
Accumulated deficit.....	(143,946)	(226,611)	(111,592)
Accumulated other comprehensive income.....	53,906	76,654	251
Total stockholders' equity (deficit).....	(40,090)	(98,818)	838,818
Total liabilities and stockholders' equity .....	□1,538,597	□1,578,350	□2,165,815

The accompanying notes are an integral part of this financial statement.

**JBS USA Holdings, Inc.**  
**A wholly owned subsidiary of JBS S.A.**  
**Consolidated statements of operations**  
(dollars in thousands)

	<b>Predecessor</b>		<b>Successor</b>
	<b>Fiscal year ended December 24, 2006</b>	<b>198 days ended July 10, 2007</b>	<b>173 days ended December 30, 2007</b>
Gross sales .....	□9,747,029	□5,000,046	□5,014,381
Less deductions from sales.....	(55,597)	(29,422)	(25,397)
Net sales .....	9,691,432	4,970,624	4,988,984
Cost of goods sold .....	9,574,715	4,920,594	5,013,084
Gross profit (loss).....	116,717	50,030	(24,100)
Selling, general, and administrative expenses.....	158,783	92,333	60,727
Foreign currency transaction gains.....	(463)	(527)	(5,201)
Other income, net.....	(4,937)	(3,821)	(3,581)
(Gain) loss on sales of property, plant, and equipment .....	(666)	(2,946)	182
Interest expense, net.....	118,754	66,383	34,340
Loss before income tax expense .....	(154,754)	(101,392)	(110,567)
Income tax (benefit) expense.....	(37,348)	(18,380)	1,025
Net loss .....	□ (117,406)	□ (83,012)	□ (111,592)

*The accompanying notes are an integral part of this financial statement.*

**JBS USA Holdings, Inc.**  
**A wholly owned subsidiary of JBS S.A.**  
**Consolidated statements of cash flows**  
(dollars in thousands)

	<b>Predecessor</b>		<b>Successor</b>
	<b>Fiscal year ended December 24, 2006</b>	<b>198 days ended July 10, 2007</b>	<b>173 days ended December 30, 2007</b>
<b>Cash flows from operating activities:</b>			
Net loss .....	□(117,406)	□(83,012)	□(111,592)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation.....	73,611	38,904	30,085
Amortization of intangibles .....	11,023	5,934	5,159
Goodwill impairment charge .....	4,488	□	□
Amortization of debt issuance costs .....	9,991	6,226	883
PIK interest (Seller Note, Convertible Senior Note and Senior Notes due 2010) .....	37,994	21,333	□
(Gain) loss on sales of property, plant and equipment .....	(666)	(2,946)	182
Deferred income taxes .....	(38,324)	(22,078)	(177)
Stock based compensation .....	853	1,189	□
Foreign currency transaction gains on intercompany note .....	□	□	(4,457)
Other non-cash .....	(279)	□	□
Change in assets and liabilities, net of impact of acquisition:			
Restricted cash .....	□	□	(30,014)
Accounts receivable, net .....	46,613	(24,781)	(57,625)
Inventories .....	47,919	(10,327)	32,851
Other current assets .....	9,202	3,979	19,414
Accounts payable and accrued liabilities.....	(18,080)	(45,009)	7,171
Noncurrent assets.....	884	(73)	336
Net cash flows provided by (used in) operating activities .....	<u>67,823</u>	<u>(110,661)</u>	<u>(107,784)</u>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment .....	(47,294)	(33,700)	(33,461)
Proceeds from disposal of NonFed Plants .....	29,648	□	□
Proceeds from sales of property, plant, and equipment.....	5,607	5,203	379
Proceeds from sales of water rights.....	□	2,872	□
Investment in bonds.....	□	(11,000)	□
Purchase of nonoperating real property .....	□	□	(2,629)
Notes receivable and other.....	116	8,848	□
Costs associated with acquisition by parent, net of cash acquired □44,673.....	□	□	(3,698)
Net cash flows used in investing activities.....	<u>(11,923)</u>	<u>(27,777)</u>	<u>(39,409)</u>
<b>Cash flows from financing activities:</b>			
Net borrowings (payments) of revolver .....	(7,779)	104,316	□
Net payments of short-term debt .....	□	□	(296,550)
Proceeds from debt issuance .....	□	□	750,000
Payments of debt .....	(2,653)	(1,149)	(851,736)
Change in overdraft balances.....	(15,265)	(2,675)	21,650
Investment from parent .....	□	□	950,159
Repurchase of common stock .....	(250)	□	□
Payment to previous shareholders in conjunction with acquisition by parent .....	□	□	(225,000)
Debt issuance costs .....	□	□	(1,812)
Net cash flows provided by (used in) financing activities .....	<u>(25,947)</u>	<u>100,492</u>	<u>346,711</u>
Effect of exchange rate changes on cash .....	1,403	(801)	(635)
Net change in cash and cash equivalents .....	31,356	(38,747)	198,883
Cash and cash equivalents, beginning of period .....	52,064	83,420	□
Cash and cash equivalents, end of period .....	<u>□ 83,420</u>	<u>□ 44,673</u>	<u>□ 198,883</u>
<b>Non-cash investing and financing activities:</b>			
Construction in process under deemed capital lease.....	□	□ 7,559	□ 664
<b>Supplemental information:</b>			
Cash paid for interest .....	□ 74,887	□ 45,707	□ 26,270
Cash paid (received) for income taxes .....	□ 4,317	□ (3,150)	□ 1,022

The accompanying notes are an integral part of this financial statement.



**JBS USA Holdings, Inc.**  
**A wholly owned subsidiary of JBS S.A.**  
**Consolidated statements of stockholders' equity**  
(dollars in thousands)

	Common stock issued	Treasury shares	Common stock	Additional paid-in capital	Treasury stock	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
<b>Predecessor</b>								
Balance at December 25, 2005 .....	221,359,000	(1,537,151)	□2,212	□ 48,699	□(1,564)	□ (26,540)	□39,775	□ 62,582
Repurchase of common stock .....	□	(247,433)	□	□	(250)	□	□	(250)
Stock based compensation .....	□	□	□	853	□	□	□	853
Comprehensive loss:								
Net loss .....	□	□	□	□	□	(117,406)	□	(117,406)
Derivative adjustment, net of tax of □1,169 ..	□	□	□	□	□	□	(1,267)	(1,267)
Foreign currency translation adjustment .....	□	□	□	□	□	□	15,398	15,398
Total comprehensive loss .....								(103,275)
Balance at December 24, 2006 .....	221,359,000	(1,784,584)	2,212	49,552	(1,814)	(143,946)	53,906	(40,090)
Stock based compensation .....	□	□	□	1,189	□	□	□	1,189
Cumulative effect of adoption of FIN 48 .....	□	□	□	□	□	347	□	347
Comprehensive loss:								
Net loss .....	□	□	□	□	□	(83,012)	□	(83,012)
Derivative adjustment, net of tax of □217 .....	□	□	□	□	□	□	1,959	1,959
Foreign currency translation adjustment .....	□	□	□	□	□	□	20,789	20,789
Total comprehensive loss .....								(60,264)
Balance at July 10, 2007 .....	221,359,000	(1,784,584)	□2,212	□ 50,741	□(1,814)	□(226,611)	□76,654	□(98,818)
<b>Successor</b>								
Investment from parent .....	100	□	□ □	□950,159	□ □	□ □	□ □	□950,159
Comprehensive loss:								
Net loss .....	□	□	□	□	□	(111,592)	□	(111,592)
Derivative adjustment, net of tax of □186 .....	□	□	□	□	□	□	(422)	(422)
Foreign currency translation adjustment .....	□	□	□	□	□	□	673	673
Total comprehensive loss .....								(111,341)
Balance at December 30, 2007 .....	100	□	□ □	□950,159	□ □	□(111,592)	□ 251	□838,818

The accompanying notes are an integral part of this financial statement.

# JBS USA Holdings, Inc.

## A wholly owned subsidiary of JBS S.A.

### Notes to consolidated financial statements

#### Note 1. Description of business

JBS USA Holdings, Inc. ("JBS USA Holdings" or the "Company" or "we"), formerly known as Swift Foods Company ("Swift Foods") and JBS USA, Inc., is a Delaware corporation and a wholly owned subsidiary of JBS S.A., a Brazilian company ("JBS"). JBS USA Holdings owns all of JBS USA, Inc. ("JBS USA") which is the operating entity (See Note 12). JBS USA and its subsidiaries constitute the operations of JBS USA Holdings as reported under accounting principles generally accepted in the United States of America ("GAAP").

JBS USA is the leading beef processor and one of the leading pork processing companies in the world. The Company processes, prepares, packages, and delivers fresh, further processed and value-added beef, pork and lamb products for sale to customers in the United States and in international markets. The Company also provides services to its customers designed to help them develop more sophisticated and profitable sales programs. JBS USA sells its meat products to customers in the foodservice, international, further processor, and retail distribution channels. The Company also produces and sells by-products that are derived from its meat processing operations, such as hides and variety meats, to customers in various industries.

JBS USA conducts its domestic beef and pork processing businesses through Swift Beef Company ("Swift Beef") and Swift Pork Company ("Swift Pork") and its Australian beef business through Swift Australia Pty. Ltd. ("Swift Australia"). The Company has two reportable segments comprised of Beef and Pork which, for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007, represented approximately 78.1% and 21.9%, 75.5% and 24.5% and 78.9% and 21.1% of net sales, respectively. During the periods covered by these financial statements, the Company operated four beef processing facilities, three pork processing facilities, one lamb slaughter facility, and one value-added facility in the United States and four beef processing facilities and four feedlots in Australia (See Note 12).

#### Note 2. Acquisition and refinancing of JBS USA Holdings, Inc.

On July 11, 2007, JBS acquired Swift Foods (the "Acquisition"). Concurrent with the closing of the Acquisition, the entity formerly known as Swift Foods was renamed JBS USA, Inc. and later renamed JBS USA Holdings, Inc. The aggregate purchase price for the Acquisition was \$1,470.6 million (including approximately \$48.5 million of transaction costs), as shown below. JBS USA Holdings also refinanced its debt and the outstanding debt assumed at the date of the Acquisition was paid off using proceeds from \$750 million of various debt instruments and additional equity contributions from JBS (See Note 6). As a result of the Acquisition, the financial statements of JBS USA Holdings reflect the acquisition being accounted for as a purchase in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141").

The purchase price allocation is based on an independent valuation of assets and liabilities acquired. The allocation presented below reflects the preliminary fair value of the individual assets and liabilities of JBS USA Holdings as of July 11, 2007 (in thousands). Subsequent to the completion of the December 2007 balance sheet the preliminary purchase price allocation was finalized in September 2008 (See Note 12).

Purchase price paid to previous shareholders.....	\$ 225,000
Debt assumed including accrued interest of \$22,872.....	1,197,124
Fees and direct expenses .....	48,490
Total purchase price.....	\$1,470,614
Preliminary purchase price allocation:	
Current assets and liabilities .....	\$583,833
Property, plant, and equipment.....	693,672
Identified intangibles .....	190,732
Deferred tax liability .....	(110)
Goodwill .....	97,194
Other noncurrent assets and liabilities, net .....	(94,707)
Total purchase price allocation .....	\$1,470,614

The debt refinancing in conjunction with the acquisition was financed in part using the following sources (in thousands):

Loan Agreements due June 30, 2008 .....	□400,000
Credit Agreement due July 6, 2008 .....	250,000
Loan Agreement due July 7, 2008 .....	100,000
	<hr/>
	□750,000

The impact of the Acquisition on the financial statements of JBS USA Holdings was the identification of intangible assets, adjustment of assets and liabilities to fair value, and an equity investment from its parent and payoff of certain outstanding debt. Although certain of the outstanding debt of JBS USA Holdings was paid off or refinanced in conjunction with the Acquisition and replaced with an equity investment from its parent, the parent does have debt outstanding and JBS USA Holdings could be called upon to provide funding to meet debt service requirements.

### **Note 3. Basis of presentation and accounting policies**

#### ***Consolidation***

The consolidated financial statements include the accounts of JBS USA Holdings and its direct and indirect wholly-owned subsidiaries. All intercompany transactions have been eliminated.

#### ***Use of estimates***

The consolidated financial statements have been prepared in conformity with GAAP using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments. Significant estimates made by the Company include the allowance for doubtful accounts, reserves related to inventory obsolescence or valuation, insurance accruals, and tax accruals.

#### ***Restricted cash***

JBS USA Holdings has outstanding letters of credit, supporting current liabilities, which are collateralized by cash. As this cash is not available for operations and is not considered highly liquid it is classified as restricted cash.

#### ***Cash and cash equivalents***

JBS USA Holdings considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The carrying value of these assets approximates the fair market value. Financial instruments which potentially subject JBS USA Holdings to concentration of credit risk consist principally of cash and temporary cash investments. At times, cash balances held at financial institutions were in excess of Federal Deposit Insurance Corporation insurance limits. JBS USA Holdings places its temporary cash investments with high quality financial institutions. JBS USA Holdings believes no significant concentration of credit risk exists with respect to these cash investments.

#### ***Investment in auction rate securities***

During the 173 days ended December 30, 2007, JBS USA Holdings invested in auction rate securities based on its cash needs and available cash balances. As of December 30, 2007 the Company held no investments in auction rate securities. The Company considered these investments to be available-for-sale in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and, as such, the cash flows associated with these investments have been reflected in investing activities. Realized gains recorded in interest income for the period July 11 through December 30, 2007 totaled □2.7 million.

#### ***Accounts receivable and allowance for doubtful accounts***

The Company has a diversified customer base which includes some customers who are located in foreign countries. The Company controls credit risk related to accounts receivable through credit worthiness reviews, credit limits, letters of credit, and monitoring procedures.

The Company evaluates the collectability of its accounts receivable based on a general analysis of past due receivables, and a specific analysis of certain customers which management believes will be unable to meet their financial obligations due to economic conditions, industry-specific conditions, historic or anticipated performance, and other relevant circumstances. The Company continuously performs credit evaluations and reviews of its customer base. The Company

will write-off an account when collectability is not reasonably assured. The Company believes this process effectively mitigates its exposure to bad debt write-offs; however, if circumstances related to changes in the economy, industry, or customer conditions change, the Company may need to subsequently adjust the allowance for doubtful accounts.

The Company adheres to customary industry terms of net seven days. The Company considers all domestic accounts over 14 days as past due and all international accounts over 30 days past due. Activity in the allowance for doubtful accounts is as follows (in thousands):

	<b>Predecessor</b>		<b>Successor</b>
	<b>Fiscal year ended December 24, 2006</b>	<b>198 days ended July 10, 2007</b>	<b>173 days ended December 30, 2007</b>
Balance, beginning of period.....	□1,701	□1,030	□1,466
Bad debt provision (decrease) .....	(793)	512	(115)
Write-offs, net of recoveries .....	122	(76)	36
Effect of exchange rates .....	□	□	2
Balance, end of period .....	□1,030	□1,466	□1,389

### ***Inventories***

Inventories consist primarily of product, livestock, and supplies. Product inventories are considered commodities and are primarily valued based on quoted commodity prices. Australian product inventories are valued based on the lower of cost or net realizable value. Livestock inventories are valued on the basis of the lower of first-in, first-out cost or market. Costs capitalized into livestock inventory include cost of feeder livestock, direct materials, supplies, and feed. Cattle, hogs, and lamb are reclassified from livestock to work in process at time of slaughter. Supply inventories are carried at historical cost. The components of inventories, net of reserves, are as follows (in thousands):

	<b>Predecessor</b>		<b>Successor</b>
	<b>December 24, 2006</b>	<b>July 10, 2007</b>	<b>December 30, 2007</b>
Livestock .....	□105,033	□122,853	□96,851
Product inventories:			
Work in progress.....	29,561	43,671	37,127
Finished goods.....	277,433	277,348	292,157
Supplies.....	45,802	43,726	40,621
	□457,829	□487,598	□466,756

### ***Other Current Assets***

Other current assets include prepaid expenses which are amortized over the period the Company expects to receive the benefit.

### ***Property, plant and equipment***

Property, plant and equipment was recorded at cost and was adjusted to fair value at the date of the Acquisition. Subsequent additions are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows.

Furniture, fixtures, office equipment and other .....	5 to 7 years
Machinery and equipment.....	5 to 15 years
Buildings and improvements .....	15 to 40 years
Leasehold improvements .....	shorter of useful life or the lease term

The costs of developing internal-use software are capitalized and amortized when placed in service over the expected useful life of the software. Major renewals and improvements are capitalized while maintenance and repairs are expensed as incurred. The Company has historically and currently accounts for planned major maintenance activities as they are incurred. Upon the sale or retirement of assets, the cost and related accumulated depreciation or amortization are eliminated from the respective accounts and any resulting gains or losses are reflected in earnings. Applicable interest charges incurred during the construction of assets are capitalized as one of the elements of cost and are amortized over

the assets' estimated useful lives. During the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007, JBS USA Holdings capitalized \$0.3 million, \$0.4 million and \$0.4 million of interest charges, respectively. Assets held under capital lease are classified in property, plant, and equipment and amortized over the lease term. Lease amortization is included in depreciation expense. As of December 24, 2006, July 10, 2007 and December 30, 2007, JBS USA Holdings had \$3.7 million, \$6.1 million and \$6.8 million in commitments outstanding for capital projects, respectively. At December 30, 2007, the Company also had a commitment to purchase \$15.5 million of bonds, as discussed in other assets.

JBS USA Holdings assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When future undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value, the Company compares the asset's future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value and records a provision for impairment as appropriate.

Property, plant, and equipment, net are comprised of the following (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
Land .....	\$ 54,058	\$ 58,580	\$ 59,832
Buildings, machinery, and equipment .....	628,844	657,681	596,954
Property and equipment under capital lease .....	21,130	20,893	16,776
Furniture, fixtures, office equipment, and other .....	55,259	58,269	32,527
Construction in progress .....	18,473	41,477	30,915
	777,764	836,900	737,004
Less accumulated depreciation.....	(290,337)	(331,728)	(28,948)
	\$487,427	\$505,172	\$708,056

Accumulated depreciation includes accumulated amortization on capitalized leases of approximately \$7.1 million, \$7.8 million and \$0.9 million as of December 24, 2006, July 10, 2007 and December 30, 2007, respectively. For the fiscal year ended December 24, 2006, the Company recognized \$63.9 million and \$9.7 million of depreciation expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively. For the 198 days ended July 10, 2007, the Company recognized \$33.8 million and \$5.2 million of depreciation expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively. For the 173 days ended December 30, 2007, the Company recognized \$23.9 million and \$6.2 million of depreciation expense in cost of goods sold and selling, general, and administrative expenses in the statement of operations, respectively.

JBS USA Holdings monitors certain asset retirement obligations in connection with its operations. These obligations relate to clean-up, removal or replacement activities and related costs for "in-place" exposures only when those exposures are moved or modified, such as during renovations of its facilities. These in-place exposures include asbestos, refrigerants, wastewater, oil, lubricants and other contaminants common in manufacturing environments. Under existing regulations, JBS USA Holdings is not required to remove these exposures and there are no plans or expectations of plans to undertake a renovation that would require removal of the asbestos nor remediation of the other in place exposures at this time. The facilities are expected to be maintained and repaired by activities that will not result in the removal or disruption of these in place exposures. As a result, there is an indeterminate settlement date for these asset retirement obligations because the range of time over which JBS USA Holdings may incur these liabilities is unknown and cannot be estimated. Therefore, JBS USA Holdings cannot reasonably estimate the fair value of the potential liability.

#### Other Assets

Other assets at December 24, 2006 include notes receivable totaling \$7.6 million, from the City of Cactus, Texas (the "City"). In December 2002, Swift Beef loaned \$2.3 million to the City for use by the City to secure acreage for the construction of the City's new wastewater treatment plant. JBS USA Holdings owns a beef processing facility, as well as a wet blue hide processing facility which will be served by the new treatment plant. The loan was for an original two-year term and accrued interest at 6%. The loan was amended in December 2004 to extend the maturity for up to one year and was extended for an additional year in December 2005 and again for an additional year in December 2006. An additional loan was made by Swift Beef to the City in the amount of \$3.5 million in January 2005 to secure additional acreage and was amended in December 2005 and again in December 2006 to extend the maturity for up to one year. A final loan in the amount of \$1.8 million was made to the City to secure final acreage in September 2005 and was amended in September 2006 to extend the maturity for up to one year. In March 2007, the maturity dates of the notes receivable were amended to be on the demand of Swift Beef to the extent that debt securities have been issued by the City in amounts

sufficient to repay the loans but in no event later than December 31, 2012. Interest income on the notes is recognized as an offset to interest expense and is payable upon maturity of the notes. In August 2006, the State of Texas approved the issuance of a wastewater treatment permit which was issued on November 9, 2006.

Effective May 15, 2007, Swift Beef entered into an Installment Bond Purchase Agreement (the "Purchase Agreement") with the City. Under the Purchase Agreement, Swift Beef agreed to purchase up to \$26.5 million of the "City of Cactus, Texas Sewer System Revenue Improvement and Refunding Bonds, Taxable Series 2007" to be issued by the City (the "Bonds"). The Bonds are being issued by the City to finance improvements to its sewer system (the "System") which is utilized by Swift Beef's processing plant located in Cactus, Texas (the "Plant") as well as other industrial users and the citizens of the community of Cactus. Swift Beef will purchase the Bonds in installments upon receipt of Bond installment requests from the City as the System improvements are completed through an anticipated completion date of June 2010. The interest rate on the Bonds is the six-month LIBOR plus 350 basis points. The Bonds mature on June 1, 2032 and are subject to annual mandatory sinking fund redemption beginning on June 1, 2011. The principal and interest on the Bonds will be paid by the City from the net revenues of the System. At December 30, 2007, \$8.2 million had been recognized as construction in process and construction financing by the Company. At the date of the Acquisition and at December 30, 2007, Swift Beef held \$11.0 million of the Bonds.

On May 21, 2007, in connection with the purchase of the Bonds, Swift Beef entered into a Water & Wastewater Services Agreement (the "Wastewater Agreement") with the City under which the City will provide water and wastewater services for the Plant at the rates set forth in the Wastewater Agreement. Swift Beef's payments for the City's treatment of wastewater from the Plant will include a capacity charge in the amount required to be paid by the City to pay the principal of, and interest on, the Bonds.

On June 1, 2007, Swift Beef purchased the initial installment of Bonds in the amount of \$11.0 million. The City repaid the former notes receivable of \$7.6 million and accrued interest totaling \$1.3 million on June 1, 2007.

The Company has evaluated the impact of EITF No. 01-08, *Determining Whether an Arrangement Contains a Lease*, as well as EITF No. 97-10, *The Effect of Lessee Involvement in Asset Construction*, and has determined that it will be required to reflect the wastewater treatment facility as a capital asset (similar to a capital leased asset) as it will be the primary user of the wastewater facility based on projections of volume of throughput. As the City spends funds to construct the facility, the Company will record construction in process and the related construction financing. Construction in progress and construction financing by the Company at July 10, 2007 and December 30, 2007 was \$7.6 million and \$8.2 million, respectively.

#### **Debt issuance costs**

Costs related to the issuance of debt are capitalized and amortized to interest expense over the period the debt is outstanding. Amortization of debt issuance costs for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007 was \$10.0 million, \$6.2 million and \$0.9 million, respectively.

In addition the Company recognized \$12.7 million in interest expense for the period ended December 30, 2007 for debt not issued.

#### **Goodwill and other intangible assets**

Goodwill and other intangible assets with indefinite lives are not amortized and are tested for impairment at least on an annual basis or more frequently if impairment indicators arise, as required by SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). Identifiable intangible assets with definite lives are amortized over their estimated useful lives. On an annual basis, JBS USA Holdings performs testing for impairment using a fair-value based approach and, if there is impairment, the carrying amount of goodwill and other non-amortizing intangible assets are written down to the implied fair value. Before the Acquisition, the Company's annual impairment testing date was in May and was subsequently changed to December in May 2008. Goodwill resulting from the preliminary purchase price allocation from the Acquisition totaled \$97.2 million (See Note 12).

For the fiscal year ended December 24, 2006, the Company completed its annual impairment testing of goodwill and identifiable intangible assets with indefinite lives in May 2006. As a result of this testing, the Company recorded an impairment charge totaling \$4.5 million related to the goodwill of its Beef segment in the cost of goods sold line in the Statement of Operations.

During the 198 day period ended July 10, 2007, the Company recorded an adjustment to goodwill of \$6.8 million related to the reversal of tax reserves which were established as part of the predecessor original 2002 purchase accounting transaction. Under EITF 93-7, the reversal of tax contingencies related to purchase accounting are recognized as reductions of book goodwill when it is determined that the original reserve is no longer needed.

The table below shows a roll forward of goodwill by segment for the periods ended December 24, 2006, July 10, 2007 and December 30, 2007 (in thousands). The "other" category included in the roll forward is comprised of translation and other adjustments made to goodwill.

**Predecessor**

	December 25, 2005	Additions	Impairments	Other	December 24, 2006
Beef .....	□ 4,318	□□	□(4,488)	□170	□ □
Pork .....	6,811	□	□	□	6,811
Total .....	□11,129	□□	□(4,488)	□170	□6,811

	December 24, 2006	Additions	Impairments	Other	July 10, 2007
Beef .....	□ □	□□	□□	□ □	□□
Pork .....	6,811	□	□	(6,811)	□
Total .....	□6,811	□□	□□	□(6,811)	□□

**Successor**

	July 11, 2007	Additions	Impairments	Other	December 30, 2007
Beef .....	□□	□53,414	□□	□(849)	□52,565
Pork .....	□	43,780	□	□	43,780
Total .....	□□	□97,194	□□	□(849)	□96,345

Other identifiable intangible assets as of December 24, 2006, July 10, 2007 and December 30, 2007 are as follows (in thousands):

	Predecessor December 24, 2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing:			
Patents .....	□ 3,429	□ (1,696)	□ 1,733
Customer relationships .....	124,640	(36,861)	87,779
Mineral rights.....	810	(95)	715
Subtotal amortizing intangibles .....	128,879	(38,652)	90,227
Non-amortizing:			
Water rights .....	3,628	□	3,628
Trademark.....	10,138	□	10,138
Subtotal non-amortizing intangibles .....	13,766	□	13,766
Total intangibles .....	□142,645	□(38,652)	□103,993

	Predecessor July 10, 2007			
	Gross carrying amount	Adjustments	Accumulated amortization	Net carrying amount
Patents .....	□ 3,429	□ □	□ (1,904)	□ 1,525
Customer relationships .....	129,366	(5,640)	(43,783)	79,943
Mineral rights.....	813	□	(115)	698
Subtotal amortizing intangibles .....	133,608	(5,640)	(45,802)	82,166
Non-amortizing:				
Water rights .....	3,628	(3,326)	□	302

	<b>Predecessor</b>			
	<b>July 10, 2007</b>			
	<b>Gross carrying amount</b>	<b>Adjustments</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
Trademarks .....	10,138	□	□	10,138
Subtotal non-amortizing intangibles .....	13,766	(3,326)	□	10,440
Total intangibles .....	□147,374	□(8,966)	□(45,802)	□92,606

Patents consist of exclusive marketing rights and are being amortized over the life of the related agreements, which range from 10 to 16 years. The Customer relationship intangible is being amortized on an accelerated basis over its expected useful life of 20 years representing management's estimate of the period of expected economic benefit. Mineral rights are being amortized over its expected useful life of 20 years. For the fiscal year ended December 24, 2006 and the 198 days ended July 10, 2007, JBS USA Holdings, Inc. recognized □1.0 million and □5.9 million of amortization expense, respectively.

As part of the EITF 93-7 tax adjustment discussed above, the Company also recorded an adjustment of □5.6 million to reverse tax reserves established in the 2002 purchase accounting transaction.

The adjustment to non-amortizing intangibles reflects the sale of water rights at a carrying value of □3.3 million during the period ended July 10, 2007.

	<b>Successor</b>		
	<b>December 30, 2007</b>		
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
<b>Amortizing:</b>			
Customer relationships .....	□129,000	□(4,137)	□124,863
Customer contracts .....	15,400	(441)	14,959
Patents .....	5,200	(227)	4,973
Rental contract .....	3,507	(185)	3,322
Deferred revenue .....	1,483	(148)	1,335
Mineral rights .....	742	(21)	721
Subtotal amortizing intangibles .....	155,332	(5,159)	150,173
<b>Non-amortizing:</b>			
Trademark .....	33,300	□	33,300
Water rights .....	2,100	□	2,100
Subtotal non-amortizing intangibles .....	35,400	□	35,400
Total intangibles .....	□190,732	□(5,159)	□185,573

The customer relationship intangible and customer contract intangible are amortized on an accelerated basis over 12 and 7 years respectively, representing management's estimate of the period of expected economic benefit and yearly customer profitability.

Patents consist of exclusive marketing rights and are being amortized over the life of the related agreements, which range from 6 to 20 years. For the 173 days ended December 30, 2007, JBS USA Holdings, Inc. recognized □5.2 million of amortization expense. Based on amortizing assets recognized as of December 30, 2007, amortization expense for each of the next five years is estimated as follows (in thousands):

<b>Estimated amortization expense for fiscal years ending (in thousands):</b>	
2008 .....	□16,126
2009 .....	19,857
2010 .....	19,232
2011 .....	18,317
2012 .....	16,740



### ***Overdraft balances***

The majority of JBS USA Holdings bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance result in overdraft balances for accounting purposes and the change in the related balance is reflected in financing activities on the statement of cash flows.

### ***Self-insurance***

JBS USA Holdings is self-insured for employee medical and dental benefits and purchases insurance policies with deductibles for certain losses relating to worker's compensation and general liability. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of certain claims. Self-insured losses are accrued based upon periodic third party actuarial reports of the aggregate uninsured claims incurred using actuarial assumptions accepted in the insurance industry and the Company's historical experience rates. JBS USA Holdings has recorded a prepaid asset with an offsetting liability to reflect the amounts estimated as due for claims incurred and accrued but not yet paid to the claimant by the third party insurance company in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

### ***Environmental expenditures and remediation liabilities***

Environmental expenditures that relate to current or future operations and which improve operational capabilities are capitalized at time of incurrence. Expenditures that relate to an existing or prior condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated.

### ***Foreign currency translation***

For foreign operations, the local currency is the functional currency. Translation into US dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the period. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income. Translation gains and losses on US dollar denominated revolving intercompany borrowings between the Australian subsidiaries and the US parent are recorded in earnings. Translation gains and losses on US dollar denominated intercompany borrowings between the Australian subsidiary and the US parent and which are deemed to be part of the investment in the subsidiary are recorded in other comprehensive income. The balance of foreign currency translation, net of tax in other comprehensive income at December 24, 2006, July 10, 2007 and December 30, 2007 was \$55.3 million, \$76.1 million and \$0.7 million, respectively.

### ***Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Beginning with the adoption of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48) as of December 25, 2006, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. JBS USA Holdings has a pre-acquisition tax year ending in May and its post-acquisition tax year ending in December.

### ***Fair value of financial instruments***

The carrying amounts of JBS USA Holdings' financial instruments, including cash and cash equivalents, short-term trade receivables, and payables, approximate their fair values due to the short-term nature of the instruments. Long-term debt, including the \$750 million of unsecured loans, installment notes payable and capital lease obligations, were recorded at fair value at the time of the Acquisition (See Note 2) and JBS USA Holdings believes this approximates its fair value at December 30, 2007 subject to adjustments for any payments.

### **Revenue recognition**

The Company's revenue recognition policies are based on the guidance in Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*. Revenue on product sales is recognized when title and risk of loss are transferred to customers (upon delivery based on the terms of sale), when the price is fixed or determinable, and when collectibility is reasonably assured. The Company recognizes sales net of applicable provisions for discounts, returns and allowances which are accrued as product is invoiced to customers who participate in such programs based on contract terms and historical and current purchasing patterns.

### **Advertising costs**

Advertising costs are expensed as incurred. Advertising costs for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007 were \$7.6 million, \$2.9 million and \$2.2 million, respectively.

### **Research and development**

The Company incurs costs related to developing new beef and pork products. These costs include developing improved packaging, manufacturing, flavor enhancing, and improving consumer friendliness of meat products. The costs of these research and development activities are less than 1% of total consolidated annual sales and are expensed as incurred.

### **Shipping costs**

Pass-through finished goods delivery costs reimbursed by customers are reported in net sales while an offsetting expense is included in cost of goods sold.

### **Comprehensive income**

Comprehensive income consists of net income, foreign currency translation, and derivative adjustments. JBS USA Holdings deems all of its foreign investments to be permanent in nature and does not provide for taxes on permanently reinvested earnings or on currency translation adjustments arising from converting the investment in a foreign currency to US dollars. It is not practical to determine the amount of incremental taxes that might arise were these foreign earnings to be remitted.

### **Facility closure**

In August 2005, the Company closed its Nampa, Idaho non-fed cattle processing facility. The closure was due to continued difficulty of sourcing older non-fed cattle for slaughter in the Northwestern US and the uncertainty surrounding the opening of the Canadian border to the importation of livestock older than 30 months of age. On May 26, 2006, the Company completed the sale of the idled Nampa facility as well as the operating Omaha, Nebraska non-fed cattle processing facility. Due to significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants for all periods presented have been reflected in continuing operations.

### **Derivatives and hedging activities**

JBS USA Holdings accounts for its derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities*, (SFAS No. 133), and its related amendment, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. The Company uses derivatives (e.g., futures and options) for the purpose of mitigating exposure to changes in commodity prices and foreign currency exchange rates. The fair value of each derivative is recognized in the balance sheet within current assets or current liabilities. Changes in the fair value of derivatives are recognized immediately in the statement of operations for derivatives that do not qualify for hedge accounting. For derivatives designated as a hedge and used to hedge an existing asset or liability, both the derivative and hedged item are recognized at fair value within the balance sheet with the changes in both of these fair values being recognized immediately in the statement of operations. For derivatives designated as a hedge and used to hedge an anticipated transaction, changes in the fair value of the derivatives are deferred in the balance sheet within accumulated other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction. Any ineffectiveness is recognized immediately in the statement of operations. Amounts deferred within accumulated other comprehensive income are recognized in the statement of operations upon the completion of the related underlying transaction.

### Adoption of new accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161), which provides for enhanced disclosures about the use of derivatives and their impact on a Company's financial position and results of operations. The Company adopted SFAS No. 161 on the first day of their 2008 calendar year and the adoption of the standard did not have a material impact on its financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 141(R) *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) is intended to provide greater consistency in the accounting and reporting of business combinations. SFAS 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any non-controlling interest in the acquiree at the acquisition date, measured at fair value at that date. This includes the measurement of the acquirer's shares issued as consideration in a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gains and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. One significant change in this statement is the requirement to expense direct costs of the transaction, which under existing standards are included in the purchase price of the acquired company. This statement also established disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for business combinations consummated after December 31, 2008. Also effective, as a requirement of the statement, after December 31, 2008 any adjustments to uncertain tax positions from business combinations consummated prior to December 31, 2008 will no longer be recorded as an adjustment to goodwill, but will be reported in income. During the thirteen weeks ended December 28, 2008, the Company expensed \$1.9 million of cost previously capitalized related to the pending acquisition of National Beef Packing Company (National Beef) as the transaction did not close prior to December 15, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. This Statement is effective for JBS USA Holdings for the fiscal year ending December 28, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company's financial position, results of operations, or cash flows.

### Note 4. Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
Accrued self insurance reserves .....	\$ 48,504	\$ 48,895	\$ 30,183
Accrued salaries.....	38,944	58,838	41,678
Accrued taxes.....	9,857	7,542	8,538
Accrued freight .....	22,027	21,781	23,863
Accrued interest .....	16,793	18,095	18,157
Other .....	58,807	79,530	64,075
<b>Total .....</b>	<b>\$194,932</b>	<b>\$234,681</b>	<b>\$186,494</b>

Other accrued liabilities consist of items that are individually less than 5% of total current liabilities.

### Note 5. Derivative financial instruments

The fair value of derivative assets is recognized within other current assets while the fair value of derivative liabilities is recognized within accrued liabilities. At December 24, 2006, July 10, 2007 and December 30, 2007, the fair value of derivatives recognized within other current assets was \$5.8 million, \$23.7 million and \$13.9 million, respectively. At December 24, 2006, July 10, 2007 and December 30, 2007, the fair value of derivatives recognized within accrued liabilities was \$3.9 million, \$11.3 million and \$1.4 million, respectively.

As of December 24, 2006, July 10, 2007 and December 30, 2007, the net deferred amount of derivative gains and losses recognized in accumulated other comprehensive income was \$1.4 million, \$0.6 million and \$0.4 million net of tax, respectively. The Company anticipates these amounts will be transferred out of accumulated other comprehensive income and recognized within earnings over the 12 month period following each respective balance sheet date.

The Company utilizes various raw materials in its operations, including cattle, hogs, and energy, such as natural gas, electricity, and diesel fuel, which are all considered commodities. The Company considers these raw materials generally available from a number of different sources and believes it can obtain them to meet its requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond its control, such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. Generally, the Company purchases derivatives in an attempt to mitigate price risk related to its anticipated consumption of commodity inputs for periods of up to 12 months. The Company may enter into longer-term derivatives on particular commodities if deemed appropriate. As of December 30, 2007, the Company had derivative positions in place covering approximately 1% of its anticipated need for livestock through December 2008.

## Note 6. Long-term debt and loan agreements

As of December 24, 2006, July 10, 2007 and December 30, 2007, debt consisted of the following (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
Short-term debt			
Unsecured bank loans.....	□	□	□750,000
Unsecured credit facility .....		□	26,287
Total short-term debt.....	□	□	776,287
Current portion of long-debt:			
Installment notes payable.....	468	468	619
Capital lease obligations .....	1,482	1,469	1,379
Total current portion of long-term debt.....	1,950	1,937	1,998
Long-term debt:			
Senior credit facility .....	217,552	323,529	□
Senior notes due 2009, including unamortized premium .....	273,909	272,903	□
Senior subordinated notes, including unamortized premium ...	158,462	157,482	□
Senior notes due 2010 .....	117,809	124,916	□
Convertible senior subordinated notes.....	89,167	94,183	□
Seller PIK Note, net of accretion discount.....	182,086	195,971	□
Installment notes payable.....	10,910	10,637	10,291
Capital lease obligations .....	15,658	22,354	22,142
Long-term debt, less current portion .....	1,065,553	1,201,975	32,433
Total debt .....	□1,067,503	□1,203,912	□810,718

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years and thereafter following December 30, 2007, are as follows (in thousands):

For the fiscal years ending December	Minimum principal maturities
2008 .....	□778,285
2009 .....	2,604
2010 .....	2,541
2011 .....	2,767
2012 .....	3,098
Thereafter.....	21,423
Total minimum principal maturities .....	□810,718

As of December 30, 2007, we had approximately □34.4 million of secured debt outstanding and approximately □29.9 million of outstanding letters of credit.

A summary of the components of interest expense, net is presented below (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
Interest on:			
Unsecured bank loans .....	□	□	□22,966
Unsecured credit facility .....		□	1,311
Senior credit facility (approximately 7.18□ and 7.47□)(i) .....	22,799	12,288	□
Senior notes due 2009 (10.125□ rate) .....	27,068	14,773	50
Senior subordinated notes (12.50□ rate) .....	18,706	10,207	194
Senior notes due 2010 (approximately 11.5□) .....	13,182	7,646	□
Convertible senior subordinated notes (approximately 11.25□) .....	9,382	5,408	□
Seller PIK Note .....	15,772	9,236	□
Amortization of deferred financing costs(ii) .....	6,394	3,538	□
Amortization of deferred financing costs(iii) .....	□	□	883
Accretion of original issue discount(iv) .....	2,542	1,383	□
Accretion of discount on Seller PIK note(v) .....	7,802	5,289	□
Amortization of premium(vi) .....	(6,747)	(3,983)	
Capital lease interest .....	1,572	855	697
Interest rate swap .....	1,022	368	31
Other miscellaneous interest charges(vii) .....	561	524	404
Bank fees .....	□	□	731
Debt issuance cost on debt not executed(viii) .....	□	□	12,664
Less:			
Capitalized interest .....	(304)	(430)	(420)
Interest income .....	(997)	(719)	(5,171)
<b>Total interest expense, net.....</b>	<b>□18,754</b>	<b>□66,383</b>	<b>□34,340</b>

- (i) Represents interest on the outstanding balance of the amount drawn on the revolving credit facility, plus a 0.375□ commitment fee on the unused portion of the revolving credit facility and other fees associated with the revolving credit facility.
- (ii) Represents amortization utilizing an average maturity of 7 years.
- (iii) Represents amortization over the life of the unsecured bank loans.
- (iv) Represents accretion of the original issue discount on the notes utilizing the effective interest method
- (v) Represents accretion of the discount on the Seller PIK Note calculated using the effective interest method.
- (vi) Represents amortization of premium associated with the increased fair value of debt recorded to the extent of the approximate 45□ interest acquired in the Call Option using the effective interest method.
- (vii) Includes installment notes interest expense of □0.7 million, □0.5 million and □0.3 million for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007, respectively, the remainder is expense for other miscellaneous items.
- (viii) Fees incurred with debt refinancing intended as part of the Acquisition. The debt facilities associated with these fees were not consummated and therefore these fees were expensed immediately.

## Description of indebtedness

### Predecessor

**Senior credit facilities**—On May 26, 2005, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement") providing senior credit facilities which allowed borrowings up to □550.0 million, consisting entirely of a revolving credit facility of □550.0 million that was to terminate May 26, 2010. Up to □125.0 million of the revolving credit facility was available for the issuance of letters of credit or Australian bank guarantees and up to □65.0 million of the revolving credit facility was available for borrowings in Australian dollars by the Company's Australian subsidiaries. US dollar denominated borrowings that were euro dollar rate loans would initially bear interest at rates of 1.75□ per annum plus the applicable euro dollar rate, or (ii) base rate loans would initially bear interest at rates of 0.75□ per annum plus the highest of Citibank's base rate, the three-month certificate of deposit rate plus 0.5□, and the

federal funds effective rate plus 0.5%. Australian dollar denominated borrowings that were (i) bill rate loans would initially bear interest at rates of 1.375% per annum plus the applicable bid rate for Australian bills for the applicable interest period or (ii) short-term loans would initially bear interest at rates of 1.375% per annum plus the Reserve Bank of Australia Official Cash Rate. The revolver balance under the Company's Amended Credit Agreement included \$195.0 million that was financed as a term loan under the Company's original credit facility. Based on management's review of cash flow expectations the Company classified all revolver borrowings as long-term as of December 24, 2006 and July 10, 2007. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

*Senior notes due 2009* On September 19, 2002, the Company purchased the original business from ConAgra Foods. As a result, the Company issued \$268.0 million of its 10 1/8% senior notes due 2009. The senior notes were issued with original issue discount and generated gross proceeds to the Company of approximately \$250.5 million. The senior notes were to mature on October 1, 2009. Interest was payable semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2003. On August 15, 2003, the Company completed an exchange offer in which it exchanged new notes that were registered under the Securities Act for the notes. The senior notes were guaranteed by the Company and all of the Company's domestic subsidiaries. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

On July 16, 2003, the Company entered into a \$100 million (notional) interest rate swap that converted a portion of the fixed rate 10 1/8% notes into a floating rate obligation. The swap, which had an original maturity of October 1, 2007, was utilized to achieve a target fixed/floating capital structure appropriate for the business. In connection with the exercise of the Call Option, the carrying value for the notes was adjusted to reflect 45% of the excess of fair value over book value resulting in a premium of \$218 million being recorded. On July 13, 2007, the Company cancelled its interest rate swap for a payment of \$1.1 million since the underlying debt was repaid at the closing of the Acquisition.

*Senior subordinated notes* The Company issued to the former owner, ConAgra Foods (Former Shareholder), \$150.0 million aggregate principal amount of its 12.5% senior subordinated notes due January 1, 2010. The Company completed an exchange of offer in which it exchanged new notes that were registered under the Securities Act of 1933 for Senior subordinated notes. ConAgra Foods subsequently sold all \$150.0 million aggregate principal amount of the senior subordinated notes. Interest was payable semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2003. The senior subordinated notes were guaranteed by the Company and all of its domestic subsidiaries. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

*Senior notes due 2010* On March 11, 2005, the Company issued \$105.0 million of 11% senior notes due 2010. The notes were issued with original issue discount and generated gross proceeds to the Company of \$104.7 million. The notes were to mature on March 11, 2010. Interest was payable semi-annually in arrears on May 1 and November 1 of each year commencing on November 1, 2005. Interest could have been paid in cash or as in kind and capitalized to the loan balance, or a combination thereof at the option of the Company. If interest was paid in kind and capitalized and not paid in cash on the semi-annual due dates, the interest rate increased to 12.0%. Interest capitalized to the original issuance amount was \$13.0 million as of December 24, 2006 and \$20.1 million as of July 10, 2007. Accretion of debt discount totaled \$28 thousand for the 198 days ended July 10, 2007 and \$52 thousand for the fiscal year ended December 24, 2006. The senior notes were guaranteed by the Company. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

*Convertible senior subordinated notes* On March 11, 2005, the Company issued \$75.0 million of 10.25% convertible senior subordinated notes. The convertible notes were to mature on March 11, 2010. Interest was payable semi-annually in arrears on May 1 and November 1 each year commencing on November 1, 2005 at the rate of 10.25% per annum, if paid in cash, or 11.25% per annum, if paid in kind and capitalized. Interest capitalized to the original issuance amount was \$14.2 million as of December 24, 2006 and \$20.1 million as of July 10, 2007. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

*Seller PIK note* On September 19, 2002, the Company issued a \$150 million promissory note to the Former Shareholder. The stated interest rate was an increasing rate from 8.0% to 10.0% over the 7.5 year life of the note. To record the note at fair value, it was discounted at an estimated market rate at September 19, 2002 of 14.95% resulting in a discount of \$54.8 million. Accrued interest was capitalized to the note balance and both the face amount of the note and all accrued interest would have been payable on the due date March 19, 2010. In connection with the acquisition of the minority interest, the carrying value of the note was adjusted to reflect 45% of the excess of fair value over book value, resulting in a premium of \$7.6 million. Accretion of debt discount was approximately \$5.3 million for the 198 days ended July 10, 2007 and \$7.8 million for the fiscal year ended December 24, 2006. Amortization of the premium discussed above was \$0.6 million for the 198 days ended July 10, 2007 and \$0.9 million for the fiscal year ended December 24, 2006. Accrued interest was capitalized to the note balance and both the face amount of the note and all accrued interest was to be payable on the due date in 2010. At the closing of the Acquisition on July 11, 2007 this debt was repaid.

## **Successor**

*Unsecured credit facility* On August 15, 2007 Swift Australia entered into an unsecured credit facility for Australian Dollar borrowings up to a maximum of AUD \$70 million to fund working capital and letter of credit requirements. The initial 90 day term expired on November 17, 2007 and the facility was subsequently extended to February 29, 2008. This facility was replaced with a new agreement on February 26, 2008 when Swift Australia entered into an AUD \$120 million unsecured credit facility of which AUD \$80 million can be borrowed for cash needs and AUD \$40 million is available to fund letters of credit (See Note 12). Borrowings are made at either the cash advance rate (BBSY) plus a margin of 0.35% or a market rate advance (RBA cash rate) plus a margin of 0.50%.

## **Unsecured bank loans**

The following unsecured bank loans were all repaid between April 28, 2008 and June 30, 2008. These loans were repaid with additional paid in capital of \$400 million and \$350 million in intercompany notes payable (See Note 12).

*\$250 million loan agreement* In connection with the Acquisition, JBS USA entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 1.50%. The loan was to mature on June 30, 2008. The loan agreement contained customary representations and warranties. The loan agreement was guaranteed by JBS. S.A.

*\$150 million loan agreement* In connection with the Acquisition, JBS USA entered into a one year unsecured loan agreement with interest payable semi-annually based on six month LIBOR plus a margin of 0.75%. The loan was to mature on June 30, 2008. The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS. S.A.

*\$250 million credit agreement* In connection with the Acquisition, JBS USA entered into a one year unsecured credit agreement with interest payable quarterly based on three month LIBOR plus a margin of 0.75%. The agreement was to mature on July 7, 2008. The credit agreement contained customary representations, warranties and negative covenants. There were no maintenance financial covenants but the agreement contained an incurrence of Consolidated Net Indebtedness to EBITDA ratio of 3.75 to 1.00 prior to December 31, 2007 and 3.60 to 1.00 commencing on January 1, 2008 and ending on the maturity date. The credit agreement was guaranteed by JBS. S.A.

*\$100 million loan agreement* In connection with the Acquisition, JBS USA entered into a one year unsecured loan agreement. The original 182 day loan agreement with interest payable at maturity based on six month LIBOR plus a margin of 0.8%. The loan was to mature on January 7, 2008. On January 3, 2008, an extension and modification agreement was signed changing the maturity date to July 7, 2008 and increasing the margin to 1.5% (See Note 12). The loan agreement contained customary representations, warranties and covenants. The loan agreement was guaranteed by JBS S.A.

## **Secured debt**

*Installment notes payable* The installment note payable relates to the Company's financing of a capital investment and was assumed at the Acquisition. The note bears interest at LIBOR plus a fixed margin of 1.75% per annum with payments due on the first of each month and matures on August 1, 2013.

*Capital and operating leases*— JBS USA Holdings and certain of its subsidiaries lease the corporate headquarters in Greeley, Colorado under capital lease; six distribution facilities located in New Jersey, Florida, Nebraska, Arizona, Colorado and Texas; marketing liaison offices in the US, Korea, Japan, Mexico, China, and Taiwan; its distribution centers and warehouses in Australia; and a variety of equipment under operating lease agreements that expire in various years between 2008 and 2019 which were assumed in the Acquisition. Future minimum lease payments at December 30, 2007, under capital and non-cancelable operating leases with terms exceeding one year are as follows (in thousands):

	<b>Capitalized lease obligations</b>	<b>Noncancellable operating lease obligations</b>
<b>For the fiscal years ending December</b>		
2008 .....	□ 2,573	□11,924
2009 .....	2,850	9,200
2010 .....	2,644	5,334
2011 .....	2,721	4,628
2012 .....	2,874	2,732
Thereafter .....	15,646	6,128
Net minimum lease payments .....	29,308	□39,946
Less: Amount representing interest .....	(5,787)	
Present value of net minimum lease payments .....	□23,521	

Rent expense associated with operating leases for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007, was □16.2 million, □9.6 million and □8.1 million, respectively.

## **Note 7. Stock option and defined contribution plans**

### ***Predecessor***

#### ***Stock purchase plans***

We had a stock purchase plan pursuant to which eligible employees and non-employees (including non-employee directors) of the Company and its subsidiaries could purchase shares of common stock of Swift Foods. A total of 4,657,095 shares of common stock of the predecessor were authorized for purchase at a price per share as determined by the board of directors on the date of purchase. As of July 10, 2007, certain members of Swift Foods' management and non-employee directors held an aggregate of (i) 1,410,000 shares purchased under the 2002 stock purchase plan at a purchase price of □1.00 per share, (ii) 500,000 shares under the 2002 stock purchase plan at a purchase price of □1.01 per share and (iii) 286,940 shares purchased under the 2005 stock purchase plan at a purchase price of □1.32 per share. At July 10, 2007, there were 1,440,000 shares available for purchase under the 2002 stock purchase plan and 334,584 shares available for purchase under the 2005 stock purchase plan. Purchases under the 2002 plan were at the estimated fair market value of such shares on the date of purchase. Purchases under the 2005 plan were at less than fair market value in order to allow management to share in the economic benefit arising from the exercise of the Call Option. The Plan was terminated immediately prior to the closing of the Acquisition on July 11, 2007.

#### ***2002 Stock Option Plan***

We adopted the Swift Foods Company 2002 Stock Option Plan (the "Option Plan"), pursuant to which options were granted at the sole discretion of the Board of Directors to the predecessor employees and eligible non-employees of Swift Foods or subsidiaries for the purchase of shares of common stock of Swift Foods. Due to acceleration of vesting of outstanding options and the termination of the Option Plan immediately prior to the closing of the Acquisition on July 11, 2007 the remaining unrecognized expense was recorded as a component of earnings prior to July 10, 2007.

Stock based compensation expense recognized in the statements of earnings was □0.9 million for the fiscal year ended December 24, 2006 and □1.2 million for the 198 days ended July 10, 2007.



## **Predecessor & Successor**

### **Defined contribution plans**

The Company sponsors two tax-qualified employee savings and retirement plans (the "401(k) Plans") covering its US based employees, both union and non-union. Pursuant to the 401(k) Plans, eligible employees may elect to reduce their current compensation by up to the lesser of 75% of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plans. The 401(k) Plans provide for additional matching contributions by the Company, based on specific terms contained in the 401(k) Plans. On July 8, 2008 the Company amended its 401(k) Plans described above by eliminating the immediate vesting and instituting a five year vesting schedule for all non-production employees and reducing the maximum Company match to an effective 2% from the former rate of 5%. The trustee of the 401(k) Plans, at the direction of each participant, invests the assets of the 401(k) Plans in participant designated investment options. The 401(k) Plans are intended to qualify under Section 401 of the Internal Revenue Code. The Company's expenses related to the matching provisions of the 401(k) Plans for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007 totaled approximately \$7.1 million, \$4.1 million and \$3.3 million, respectively.

One of the Company's facilities had participated in a multi-employer pension plan. The Company's contributions to this plan, which are included in cost of goods sold in the statement of operations for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007, were \$0.4 million, \$0.1 million, and \$0.1 million, respectively. The Company also made contributions for the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007 totaling \$26 thousand dollars for each period to a multiemployer pension related to former employees at the former Nampa, Idaho plant pursuant to a settlement agreement. The Company recognized \$0.7 million of contribution expense in costs of goods sold for the fiscal year ended December 24, 2006. As the future payments are made they are recorded as a reduction of the pre-acquisition contingency established during the Acquisition. (See Note 2).

Employees of Swift Australia do not participate in the Company's 401(k) Plans. Under Australian law, Swift Australia contributes a percentage of employee compensation to a superannuation fund. This contribution approximates 9% of employee cash compensation as required under the Australian "Superannuation Act of 1997". As the funds are administered by a third party, once this contribution is made to the fund, Swift Australia has no obligation for payments to participants or oversight of the fund. The Company's expenses related to contributions to this fund for the fiscal year ended December 24, 2006, the 198 days ended July 10, 2007 and the 173 days ended December 30, 2007 totaled \$14.0 million, \$7.1 million and \$7.2 million, respectively.

## **Note 8. Related party transactions**

JBS USA Holdings was formerly known as Swift Foods Company ("Swift Foods"). Swift Foods was acquired from ConAgra Foods in a two-step process, \$54.7 on September 18, 2002 and \$45.3 on September 23, 2004 (collectively "The Transaction"). Swift Foods majority shareholders were HM Capital Partners ("Hicks Muse") and Booth Creek Investments ("Booth Creek").

### **Predecessor**

*Stockholders' agreement* ConAgra Foods, Hicks Muse, other holders of Swift Foods common stock, and Swift Foods were parties to a Stockholders Agreement that included provisions regarding, among others, the election of directors, registration rights, restrictions on transfer, and other rights regarding sales of Swift Foods stock by Hicks Muse.

The Stockholders Agreement required the holders of Swift Foods common stock that were subject to the agreement, subject to certain conditions, to vote their shares in favor of the election to Swift Foods board of directors of five individuals as may be designated by Hicks Muse and its affiliates. Under the HMTF Rawhide Partnership Agreement, Hicks Muse had agreed to cause an individual designated by an affiliate of George N. Gillett, Jr., our then Chairman of the Board, to be included in the five individuals designated for election to Swift Foods board of directors by Hicks Muse for as long as Mr. Gillett or his affiliates continued to own at least 25% of the limited partnership interest in Rawhide owned by such parties at the closing of the Transaction.

*Monitoring and oversight agreement* In connection with the Transaction, Swift Foods and certain of its direct and indirect subsidiaries entered into a ten-year agreement (the "Monitoring and Oversight Agreement") with an affiliate of HM Capital Partners, LLC (formerly known as Hicks, Muse, Tate & Furst, Incorporated) pursuant to which Swift Foods, as the assignee of this agreement in November 2004, would pay Hicks Muse Partners an annual fee for ongoing oversight and monitoring services provided to it. The annual fee would be adjusted at the beginning of each fiscal year to an amount equal to the greater of (a) \$2 million or (b) 1% of the budgeted consolidated annual EBITDA of Swift Foods and its

subsidiaries. The annual fee would also be adjusted in the event that Swift Foods or any of its subsidiaries acquired another entity or business during the term of the agreement. This expense was paid in advance quarterly and \$2.2 million and \$1.3 million are included in selling, general, and administrative expense for the fiscal year ended December 24, 2006 and the 198 days ended July 10, 2007.

Swift Foods had agreed to indemnify Hicks Muse, its affiliates and their respective directors, officers, controlling persons, if any, agents, independent contractors, and employees from and against all claims, liabilities, damages, losses, and expenses arising out of or in connection with the services rendered by Hicks Muse pursuant to the Monitoring and Oversight Agreement. One of Swift Foods' directors, Mr. Muse, was a limited partner of Hicks Muse and a director, officer, and stockholder of the general partner of Hicks Muse.

The Monitoring and Oversight Agreement made available the resources of Hicks Muse concerning a variety of financial and operational matters. Swift Foods believed the services that were to be provided by Hicks Muse could not otherwise be obtained by it without the addition of personnel or the engagement of outside professional advisors. In management's opinion, the fees provided for under the Monitoring and Oversight Agreement reasonably reflected the benefits received by Swift Foods.

Hicks Muse had agreed to pay to Gillett Greeley, LLC, an affiliate of George N. Gillett, Jr., the then Chairman of the Board, 25% of the annual fees payable to it under the Monitoring and Oversight Agreement pursuant to a consulting agreement between Hicks Muse and Booth Creek, which was ultimately controlled by Mr. Gillett. Booth Creek had agreed to provide consulting services to Hicks Muse.

*Financial advisory agreement* In connection with the Transaction, Swift Foods and certain of its direct and indirect subsidiaries also entered into a ten-year agreement (the "Financial Advisory Agreement") pursuant to which an affiliate of Hicks Muse received a cash financial advisory fee equal to \$15.0 million upon the closing of the Transaction as compensation for its services as financial advisor for the Transaction. The Financial Advisory Agreement also provided for Hicks Muse to receive an expense reimbursement of \$2.0 million upon the closing of the Transaction. These fees were included as part of the expenses of the Transaction. The expense reimbursement was agreed upon in the purchase agreement to reimburse Swift Foods' chairman for normal due diligence costs incurred in evaluating and analyzing the acquisition. The agreement provided for a defined reimbursement of \$2.0 million to cover due diligence expenses without having to provide Swift Foods with detailed expense records. These fees were included as part of the expenses of the Transaction.

Hicks Muse also was entitled to receive a fee equal to 1.5% of the transaction value for any subsequent transaction in which Swift Foods, as the assignee of the agreement in November, 2004, was involved that was consummated during the term of the Financial Advisory Agreement.

The Financial Advisory Agreement made available the investment banking, financial advisory, and other similar services of Hicks Muse. Swift Foods believed the services that were provided by Hicks Muse could not otherwise be obtained by it without the addition of personnel or the engagement of outside professional advisors. In management's opinion, the fees provided for under the Financial Advisory Agreement reasonably reflect the benefits received by Swift Foods.

Swift Foods had agreed to indemnify Hicks Muse, its affiliates and their respective directors, officers, controlling persons, if any, agents, independent contractors and employees from and against all claims, liabilities, damages, losses and expenses arising out of or in connection with the services rendered by Hicks Muse pursuant to the Financial Advisory Agreement. One of Swift Foods' directors, Mr. Muse, is a limited partner of Hicks Muse and a director, officer, and shareholder of the general partner of Hicks Muse Partners.

Hicks Muse had agreed to pay to Booth Creek, an affiliate of George N. Gillett, Jr., the Company's then Chairman of the Board, 25% of the annual fees payable to it under the Financial Advisory Agreement. Booth Creek Management Company did not receive any portion of the \$15.0 million cash financial advisory fee paid to Hicks Muse upon the closing of the Transaction. Hicks Muse paid to Gillett Greeley, LLC, an affiliate of George N. Gillett, Jr., all of the \$2.0 million expense reimbursement described above.

*Indemnification and release agreement* At the closing of the Transaction, Swift Foods and certain of its direct and indirect subsidiaries entered into an indemnification and release agreement with ConAgra Foods pursuant to which Swift Foods agreed to be bound by the post-closing indemnification obligations set forth in the purchase agreement and, following the closing, to release ConAgra Foods from all liabilities and actions for environmental costs or liabilities other than that which are set forth in the purchase agreement.

*Tax Sharing Agreement* In connection with the closing of the Transaction, Swift Foods and certain of its direct and indirect subsidiaries entered into a tax sharing agreement assumed by Swift Foods in November 2004 pursuant to which the Company is obligated, among other things, to distribute to Swift Foods any taxes attributable to it and its subsidiaries and under which the Company will be indemnified for any taxes paid by it or its subsidiaries on behalf of any other member of Swift Foods consolidated tax group.

*Contribution Agreement* In connection with the closing of the Transaction, Swift Foods, with its direct and indirect subsidiaries entered into a contribution agreement assumed by Swift Foods in November 2004 pursuant to which these entities will contribute or otherwise pay over, or cause any of their subsidiaries to contribute or otherwise pay over, to the Company any amounts they receive from ConAgra Foods or its affiliates pursuant to indemnification claims under the purchase agreement and any amounts obtained from other sources which are applied to offset any indemnification claims that the Company could otherwise make under the purchase agreement.

*Indemnity Side Letter* In connection with the closing of the Transaction, ConAgra Foods agreed to reimburse the Company to the extent recall costs incurred after the Transaction exceed the accrual made for estimated recall costs pursuant to the purchase agreement relating to the Transaction, and the Company agreed to reimburse ConAgra Foods to the extent the accrual exceeds the recall costs. ConAgra Foods had further agreed to indemnify the Company for liabilities, costs, and expenses that it may incur with respect to third parties in connection with product liability claims or personal injury causes of action arising from the consumption of the products subject to the recall. The Company has a \$1.6 million receivable from ConAgra Foods at December 24, 2006, July 10, 2007 and December 30, 2007 for reimbursement of amounts in excess of the accrual which represents additional claims from customers seeking reimbursement for recall related costs from the Company. The balance of the receivable was subsequently collected in 2008.

#### **Transactions with affiliated companies**

During the fiscal year ended December 24, 2006 and the 198 days ended July 10, 2007, the Company purchased \$3.9 million and \$2.5 million in cattle hides, respectively and \$368 thousand and \$334 thousand of commodity product from Coleman Natural Meats (Coleman), an independent meat packing company controlled by the then chairman of the Board of Swift Foods and its subsidiaries, respectively. In addition, it provided certain further processing capabilities to Coleman in the amount of \$118 thousand for the fiscal year ended December 24, 2006. There were no amounts for the 198 days ended July 10, 2007 for these services.

During the 198 days ended July 10, 2007, the Company paid commissions totaling \$27 thousand to Swett Crawford, an intermediary insurance broker owned by HMSC Investments, L.P., an affiliate of Hick Muse Partners, one of the Company's then equity sponsors. The commissions were earned by Swett Crawford for placing insurance coverage with third-party carriers at market rates.

#### **Successor**

JBS USA Holdings enters into transactions in the normal course of business with affiliates of JBS S.A. Sales to affiliated companies included in net sales on the statement of operations for the 173 days ended December, 2007 were \$6.3 million. Amounts owed to JBS USA Holdings by affiliates as of December 30, 2007 totaled approximately \$5.6 million.

For the 173 days ended December 30, 2007, the Company recorded \$26 thousand of rental income related to real property leased to two of its executive officers. At December 30, 2007 the receivable balance related to this income was \$26 thousand.

*Indemnification and release agreement* A predecessor entity of JBS USA Holdings and certain of its direct and indirect subsidiaries entered into an indemnification and release agreement with ConAgra Foods pursuant to which JBS USA Holdings is bound by the post-closing indemnification obligations set forth in the purchase agreement and to release ConAgra Foods from all liabilities and actions for environmental costs or liabilities other than that which are set forth in the purchase agreement.

*Guarantees*—JBS S.A. has notes payable outstanding of approximately \$300 million at December 30, 2007 that were issued in July 2006 and are due in 2016. The notes payable indenture requires each of JBS's significant subsidiaries, at the time of issuance or any time in the future, to be a guarantor on the notes payable. The Company has determined that they meet the definition of a significant subsidiary and are a guarantor on those notes payable issued by JBS.

## Note 9. Income taxes

The pre-tax loss on which the provision for income taxes was computed is as follows (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
Domestic .....	□(139,170)	□ (66,499)	□(112,074)
Foreign .....	(15,584)	(34,893)	1,507
Total .....	□(154,754)	□(101,392)	□(110,567)

Income tax expense (benefit) includes the following current and deferred provisions (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
<b>Current provision:</b>			
Federal .....	□ (132)	□ (1,855)	□ (2)
State .....	231	943	313
Foreign .....	877	4,610	891
Total current tax expense .....	976	3,698	1,202
<b>Deferred benefit:</b>			
Federal .....	(26,000)	(9,435)	92
State .....	(4,613)	(1,170)	(63)
Foreign .....	(7,711)	(11,473)	(206)
Total deferred tax benefit .....	(38,324)	(22,078)	(177)
<b>Total income tax (benefit) expense .....</b>	<b>□(37,348)</b>	<b>□(18,380)</b>	<b>□1,025</b>

The principal differences between the effective income tax rate, and the US statutory federal income tax rate, were as follows:

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
Expected tax rate .....	35.0□	35.0□	35.0□
State income taxes (net of federal benefit) .....	4.1	3.5	5.0
Non-deductible expense .....	(0.7)	(1.0)	□
Benefit from export sales .....	1.5	□	□
Valuation allowance .....	(7.9)	(29.0)	(42.4)
Unremitted earnings .....	(8.6)	7.2	□
Reclass of reserve .....	0.4	2.4	□
Other, net .....	0.4	0.1	1.5
Effective tax rate .....	24.2□	18.2□	(0.9)□

Temporary differences that gave rise to a significant portion of deferred tax assets (liabilities) were as follows (in thousands):

	<b>Predecessor</b>		<b>Successor</b>
	<b>December 24, 2006</b>	<b>July 10, 2007</b>	<b>December 30, 2007</b>
Inventory.....	□(13,634)	□(18,329)	□(13,812)
Derivatives.....	(21)	(149)	□
Interest.....	□	□	(1,417)
Depreciation and amortization.....	(82,123)	(58,590)	(138,633)
Undistributed earnings.....	(60,198)	(78,125)	□
Long term debt discount.....	(14,791)	(11,400)	□
All other current.....	(9,579)	(6,348)	(5,866)
All other long-term.....	□	□	(75)
Gross deferred tax liability.....	(180,346)	(172,941)	(159,803)
Accounts receivable reserve.....	544	698	649
Depreciation and amortization.....	4,310	1,896	857
Inventory.....	488	572	33
Long term debt premium.....	12,409	9,294	□
Interest.....	□	□	13,379
Accrued liabilities.....	25,563	24,550	21,507
Deferred revenue.....	□	602	505
Net operating loss □ capital loss.....	113,559	147,539	215,812
Tax credit carryforwards.....	4,827	6,197	6,775
Derivatives.....	□	□	148
All other current.....	317	587	□
All other long-term.....	2,618	7,594	4,468
Total deferred tax asset.....	164,635	199,529	264,133
Valuation allowance.....	(18,750)	(52,005)	(126,976)
Net deferred tax assets.....	145,885	147,524	137,157
Net deferred tax liability.....	□(34,461)	□(25,417)	□(22,646)
<b>Financial statement classification:</b>			
Current deferred tax asset.....	□11,149	□7,784	□4,493
Current deferred tax liability.....	(6,696)	(9,323)	(12,885)
Long-term deferred tax asset.....	□	□	5,434
Long-term deferred tax liability.....	(38,914)	(23,878)	(19,688)
Net deferred tax liability.....	□(34,461)	□(25,417)	□(22,646)

At December 24, 2006, July 10, 2007 and December 30, 2007, JBS USA Holdings has recorded net deferred tax assets of □109.4 million, □142.9 million and □192.8 million respectively for federal and state net operating loss carryforwards expiring in the years 2007 through 2028.

Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an □ownership change□ to use its net operating losses to reduce its tax liability. JBS USA Holdings experienced an ownership change in January of 2007 and July of 2007. JBS USA Holdings believes that its net operating losses exceed the Section 382 limitation in the amount of □14.0 million.

The valuation allowance for deferred tax assets as of December 24, 2006, July 10, 2007 and December 31, 2007 was □18.8 million, □52.0 million, and □127.0 million respectively. The net change in the total valuation allowance was an increase of □33.2 million and an increase of □75.0 million as of July 10, 2007 and December 30, 2007 respectively. The valuation allowance as of all dates presented was primarily related to loss and credit carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 30, 2007 will be allocated to income tax expense pursuant to FAS 141(R). Prior to the adoption of FAS 141(R), \$79.8 million of any subsequent tax benefits would be allocated to reduce goodwill related to the acquisition of JBS USA Holdings by JBS SA.

JBS USA Holdings (predecessor) has provided \$60.2 million and \$78.1 million for taxes on unremitted earnings of foreign subsidiaries. However as of December 24, 2006 and July 10, 2007, \$57.1 million and \$64.9 million, respectively, were considered indefinitely reinvested.

JBS USA Holdings (successor) deems all of its foreign investments to be permanent in nature and does not provide for taxes on permanently reinvested earnings. It is not practical to determine the amount of incremental taxes that might arise were these earnings to be remitted.

JBS USA Holdings adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on December 25, 2006. Upon adoption of FIN 48, JBS USA Holdings recognized a \$347 thousand increase in its retained earnings balance. After adoption of FIN 48, JBS USA Holdings' unrecognized tax benefits were \$776 thousand, the recognition of which would have no net impact on the effective rate.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

<b>Balance at December 25, 2006</b>	\$ 776
Additions based on tax positions related to the current period	\$
Additions for tax positions of prior years	\$
Reductions for lapses of statute of limitations	\$
Reductions for settlements	\$
<b>Balance at July 10, 2007</b>	<b>\$ 776</b>
<b>Balance at Acquisition</b>	<b>\$8,286</b>
Additions based on tax positions related to the current period	14
Additions for tax positions of prior years	\$
Reductions for lapses of statute of limitations	\$
Reductions for settlements	\$
<b>Balance at December 30, 2007</b>	<b>\$8,300</b>

JBS USA Holdings recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. Accrued interest and penalties were \$161 thousand and \$187 thousand as of July 10, 2007 and December 30, 2007 respectively.

JBS USA Holdings files income tax returns in the US and in various other states and foreign countries. JBS USA Holdings is no longer subject to audit for US Federal income tax purposes for years before 2004. In the other major jurisdictions where JBS USA Holdings operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2002.

JBS USA Holdings and its subsidiaries have various income tax returns in the process of examination. The unrecognized tax benefit and related penalty and interest balances at December 30, 2007 are expected to decrease by \$0.4 million within the next twelve months.

## Note 10. Commitments and contingencies

On July 1, 2002, a lawsuit entitled Herman Schumacher et al v. Tyson Fresh Meats, Inc., et al was filed against a predecessor company, Tyson Foods, Inc., Excel Company, and Farmland National Beef Packing Company, L.P. in the United States District Court for the District of South Dakota seeking certification of a class of all persons who sold cattle to the defendants for cash, or on a basis affected by the cash price for cattle, during the period from April 2, 2001 through May 11, 2001 and for some period up to two weeks thereafter. The complaint alleges that the defendants, in violation of the Packers and Stockyards Act of 1921, knowingly used, without correction or disclosure, incorrect and misleading boxed beef price information generated by the USDA to purchase cattle offered for sale by the plaintiffs at a price substantially lower than was justified by the actual and correct price of boxed beef during this period. On April 12, 2006, the jury returned a verdict against three of the four defendants, including a \$2.3 million verdict against Swift Beef. On February 15, 2007 a judgment was entered on the verdict by the court and on March 12, 2007 Swift Beef Company filed a notice of appeal. Although Swift Beef Company had begun the process of appealing this judgment, a liability for the amount of the verdict was recorded on May 28, 2006. ConAgra Foods will indemnify Swift Company against any judgments for monetary damages or settlements arising out of this litigation or any future litigation arising from the same facts to the extent such damages together with any other indemnifiable claims under the acquisition agreement entered into the

purchase of Swift Foods from ConAgra Foods, Inc. in 2002 exceed a minimum threshold of \$7.5 million. On January 29, 2008 Swift Beef was notified that the appeals court ruled in favor of the defendants on all counts. Swift Beef is now seeking the recovery of a portion of the legal fees it expended in this matter. As the claimants rights to appeal expired during the third quarter ended December 28, 2008 the reversal of the previously accrued trial court verdict amount was recorded as an adjustment to the Acquisition, not as a reduction of expenses on the Consolidated Statement of Operations.

Swift Beef was a defendant in a lawsuit entitled United States of America, ex rel, Ali Bahrani v. ConAgra, Inc., ConAgra Foods, Inc., ConAgra Hide Division, ConAgra Beef Company and Monfort, Inc., filed in the United States District Court for the District of Colorado in May 2000 by the relator on behalf of the United States of America and himself for alleged violations of the False Claims Act. Under the False Claims Act, a private litigant, termed the "relator," may file a civil action on the United States government's behalf against another party for violation of the statute, which, if proven, would entitle the relator to recover a portion of any amounts recovered by the government. The lawsuit alleged that the defendants violated the False Claims Act by forging and/or improperly altering USDA export certificates used from 1991 to 2002 to export beef, pork, poultry and bovine hides to foreign countries. The lawsuit sought to recover three times the actual damages allegedly sustained by the government, plus per-violation civil penalties.

On December 30, 2004, the United States District Court granted the defendants' motions for summary judgment on all claims. The United States Court of Appeals for the Tenth Circuit reversed the summary judgment on October 12, 2006 and remanded the case to the trial court for further proceedings consistent with the court's opinion. Defendants filed a Motion for Rehearing En Banc on October 26, 2006. On May 10, 2007, the Tenth Circuit denied that motion.

Issues in the case were bifurcated and two separate jury trials were held, the first trial centering on beef certificates was held from April 28, 2008, to April 29, 2008 and the second trial centering on bovine hide certificates was held from March 9 to March 19, 2009. Following the April trial, a verdict with respect to the beef certificates was returned ruling in favor of the Company on all counts. Following the March trial, a verdict with respect to the bovine hide certificates was returned ruling in favor of Company on 99.5% of the claims. Specifically, Company prevailed with respect to approximately 995 bovine hide certificates and the relator prevailed with respect to only 5 certificates. Based on the False Claims Act, this verdict resulted in a judgment against Company of \$28 thousand and the court ordered that each party pay its own attorneys' fees and court costs. The relator timely issued a notice of appeal and entered a motion for attorneys' fees and costs alleging that, because it prevailed on 0.5% of its claims, it was entitled to the payment of its attorneys' fees and costs, estimated at \$3 million. The Company has timely responded to the relator's notice of appeal, filed a cross appeal, and responded to the relator's motion for attorneys' fees and costs. The parties await final adjudication of these issues, which could come as early as the third quarter, 2009.

The Company is also a party to a number of other lawsuits and claims arising out of the operation of its businesses. Management believes the ultimate resolution of such matters should not have a material adverse effect on the Company's financial condition, results of operations, or liquidity. Attorney fees are expensed as incurred.

**Commitments**

JBS USA Holdings enters into purchase agreements for livestock which require the purchase of either minimum quantities or the total production of the facility over a specified period of time. At December 30, 2007, the Company had commitments to purchase 34.7 million hogs through 2014 and approximately 35% of cattle needs through short-term contracts. As the final price paid cannot be determined until after delivery, the Company has estimated market prices based on Chicago Mercantile Exchange traded futures contracts and applied those to either the minimum quantities required per the contract or management's estimates of livestock to be purchased under certain contracts to determine its estimated commitments for the purchase of livestock, which are as follows (in thousands):

<b>Estimated livestock purchase commitments for fiscal year ended:</b>	
2008 .....	\$3,167,672
2009 .....	1,010,143
2010 .....	940,570
2011 .....	609,332
2012 .....	547,507
Thereafter .....	439,003

Through use of these contracts, the Company purchased approximately 65% of its hog slaughter needs during the 173 days ended December 30, 2007.

## Note 11. Business segments

JBS USA Holdings is organized into two operating segments, which are also the Company's reportable segments: Beef and Pork. Segment operating performance is evaluated by the Chief Operating Decision Maker ("CODM"), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, based on Earnings Before Interest, Taxes, Depreciation, and Amortization and interest and exclusion of certain non-cash items which affect net income ("EBITDA"). EBITDA is not intended to represent cash from operations as defined by GAAP and should not be considered as an alternative to cash flow or operating income as measured by GAAP. JBS USA Holdings believes EBITDA provides useful information about operating performance, leverage, and liquidity. The accounting policies of the segments are consistent with those described in Note 3. All intersegment sales and transfers are eliminated in consolidation.

**Beef** The majority of Swift Beef's revenues are generated from the sale of fresh meat, which include chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. In addition, Swift Beef also sells beef by-products to the variety meat, feed processing, fertilizer, automotive and pet food industries. Furthermore, Australian's foods division produces value-added meat products including toppings for pizzas. The trading division in the US and Australia trades boxed meat products to brokers and retailers who resell those products to end customers.

In August 2005, the Company closed its Nampa, Idaho non-fed cattle processing facility. The closure was due to continued difficulty of sourcing older non-fed cattle for slaughter in the Northwestern US and the uncertainty surrounding the opening of the Canadian border to the importation of livestock older than 30 months of age. On May 26, 2006, the Company completed the sale of the idled Nampa facility as well as the operating Omaha, Nebraska non-fed cattle processing facility. Due to significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants for all periods presented have been reflected in continuing operations.

**Pork** A significant portion of Swift Pork's revenues are generated from the sale of products predominantly to retailers of fresh pork including trimmed cuts such as loins, roasts, chops, butts, picnics, and ribs. Other pork products, including hams, bellies, and trimmings are sold predominantly to further processors who, in turn, manufacture bacon, sausage, and deli and luncheon meats. The remaining sales are derived from by-products and from further-processed, higher-margin products. The lamb slaughter facility is included in Pork and accounts for less than 1% of total net sales.



Corporate and other□ Includes certain revenues, expenses, and assets not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
	(in thousands)	(in thousands)	(in thousands)
<b>Net sales</b>			
Beef..... □	7,576,136 □	3,757,295	3,942,231
Pork..... □	2,152,583 □	1,234,133	1,063,644
Corporate and other..... □	(37,287) □	(20,804)	(16,891)
<b>Total</b> ..... □	9,691,432 □	4,970,624	4,988,984
<b>Depreciation, amortization, and goodwill impairment charges (i)</b>			
Beef..... □	65,443 □	32,913	25,627
Pork..... □	23,679 □	11,925	9,617
<b>Total</b> ..... □	89,122 □	44,838	35,244
<b>EBITDA</b>			
Beef..... □	(13,034) □	(24,878)	(103,354)
Pork..... □	65,027 □	31,234	57,352
<b>Total</b> ..... □	51,993 □	6,356	(46,002)
Depreciation, amortization, and goodwill impairment(i)	(89,122)	(44,838)	(35,244)
Interest expense, net.....	(118,754)	(66,383)	(34,340)
Foreign currency transaction gains.....	463	527	5,201
Gain□(loss) on sales of property, plant and equipment.....	666	2,946	(182)
Loss before income tax expense.....	(154,754)	(101,392)	(110,567)
Income tax benefit□(expense).....	37,348	18,380	(1,025)
<b>Net loss</b> ..... □	(117,406) □	(83,012)	(111,592)

(i) The fiscal year ended December 24, 2006 includes a goodwill impairment charge of □4.5 million related to the Beef segment.

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
	(in thousands)	(in thousands)	(in thousands)
<b>Capital expenditures</b>			
Beef..... □	39,304 □	29,390	28,129
Pork..... □	7,990 □	4,310	5,332
<b>Total</b> ..... □	47,294 □	33,700	33,461

Corporate and other□ Includes certain assets not directly attributable to the primary segments as well as the parent companies□investments in each operating subsidiary. Also includes eliminations resulting from the consolidation process.

Total assets by segment (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
<b>Total Assets</b>			
Beef.....	□1,210,242	□1,322,788	□1,572,928
Pork.....	338,940	289,408	487,160
Corporate and other.....	(10,585)	(33,846)	105,727
<b>Total</b> .....	□1,538,597	□1,578,350	□2,165,815

Sales by geographical area based on the location of the facility recognizing the sale (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
<b>Net sales</b>			
United States .....	□8,159,577	□4,111,114	□3,980,369
Australia .....	1,531,855	859,510	1,008,615
<b>Total</b> .....	□9,691,432	□4,970,624	□4,988,984

Sales to unaffiliated customers by location of customer (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
United States.....	□ 7,499,398	□ 3,749,312	□ 3,520,268
Japan.....	682,773	373,372	365,759
Mexico .....	390,115	212,232	245,475
Korea.....	285,122	139,224	161,606
Australia .....	217,365	137,881	256,987
Other .....	616,659	358,603	438,889
<b>Total</b> .....	□ 9,691,432	□ 4,970,624	□ 4,988,984

Long-lived tangible assets by location of assets (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
<b>Long-lived assets:</b>			
United States .....	□ 315,841	□ 332,274	□ 449,013
Australia .....	174,277	185,844	281,750
Other .....	113	106	121
<b>Total</b> .....	□ 490,231	□ 518,224	□ 730,884

Long-lived assets consist of property, plant, and equipment, net of depreciation, and other assets less debt issuance costs. Long-lived assets by geographical area are based on location of facilities.

No single customer accounted for more than 10% of net sales in the fiscal year ended December 24, 2006, 198 days ended July 10, 2007, or 173 days ended December 30, 2007.

## Note 12. Subsequent events

### Acquisitions

The allocation presented below reflects the finalized fair value of the individual assets and liabilities as of July 11, 2007 (in thousands) for the purchase of JBS USA Holdings:

Purchase price paid to previous shareholders.....	□ 225,000
Debt paid including accrued interest of □22,872.....	1,197,124
Fees and direct expenses .....	48,544
Total purchase price.....	□1,470,668
Preliminary purchase price allocation:	
Current assets and liabilities.....	□583,643
Property, plant, and equipment.....	693,672
Identified intangibles .....	188,761
Deferred tax asset.....	56,537
Goodwill .....	42,762
Other noncurrent assets and liabilities, net .....	(94,707)
Total purchase price allocation .....	□1,470,668

On March 4, 2008, JBS Southern Australia Pty. Ltd. (□JBS Southern□), an indirect subsidiary of JBS USA Holdings entered into an agreement with Tasman Group Services, Pty. Ltd. (□Tasman Group□) to purchase substantially all of the assets of Tasman Group in an all cash transaction (□Tasman Acquisition□) and the purchase was completed on May 2, 2008. The assets acquired include six processing facilities and one feedlot located in southern Australia. This acquisition provides additional capacity to continue to meet customer demand. The aggregate purchase price for the Tasman Acquisition was □117.3 million (including approximately □8.6 million of transaction costs). JBS Southern also assumed approximately □52.1 million of outstanding debt.

On March 4, 2008, JBS and Smithfield Foods, Inc. (□Smithfield Foods□) entered into a Stock Purchase Agreement (□Smithfield Agreement□). Pursuant to the Smithfield Agreement, JBS purchased Smithfield Beef Group, Inc. (□Smithfield Beef□) for □563.2 million in cash (including □26.1 million of transaction related costs) and contributed its ownership in Smithfield Beef to JBS USA Holdings, Inc. (Smithfield Acquisition). JBS USA Holdings contributed its ownership in Smithfield Beef Group to JBS USA, Inc. (now known as JBS USA, LLC). The purchase included 100□ of Five Rivers Ranch Cattle Feeding LLC (□Five Rivers□), which was held by Smithfield Beef in a 50/50 joint venture with Continental Grain Company (□CGC, □formerly ContiGroup Companies, Inc.). On October 23, 2008, the acquisition of Smithfield Beef was completed. In conjunction with the closing of this purchase Smithfield Beef was renamed JBS Packerland and Five Rivers was renamed JBS Five Rivers Cattle Feeding LLC (□JBS Five Rivers□). The assets acquired include four processing plants and eleven feedlots. This acquisition provides additional capacity to continue to meet customer demand.

The purchase excludes substantially all live cattle inventories held by Smithfield Beef and Five Rivers as of the closing date, together with its associated debt. The excluded live cattle will be raised by JBS Five Rivers after closing for a negotiated fee and then sold upon maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods □CGC joint venture or to Smithfield Foods, as appropriate. The parties to this agreement believe most of the live cattle inventories will be sold within six months following closing, with substantially all sold within 12 months of closing.

Five Rivers is party to a cattle supply and feeding agreement with an unconsolidated affiliate (□the unconsolidated affiliate□). Five Rivers feeds and takes care of cattle owned by the unconsolidated affiliate. The unconsolidated affiliate pays Five Rivers for the cost of feed and medicine at cost plus a yardage fee on a per head per day basis. Beginning on June 23, 2009 or such earlier date on which Five Rivers□feed yards are at least 85□ full of cattle and ending on October 23, 2011, the unconsolidated affiliate agrees to maintain sufficient cattle on Five Rivers□feed yards so that such feed yards are at least 85□ full of cattle at all times. The agreement commenced on October 23, 2008 and continues until the last of the cattle on Five Rivers□feed yards as of October 23, 2011 are shipped to the unconsolidated affiliate, a packer or another third party.

On October 7, 2008 JBS USA, LLC became party to a cattle purchase and sale agreement with the unconsolidated affiliate. Under this agreement, the unconsolidated affiliate agrees to sell to JBS USA, LLC, and JBS USA, LLC agrees to purchase from the unconsolidated affiliate, at least 500,000 cattle during each year from 2009 through 2011. The price paid by JBS USA, LLC is determined pursuant to JBS USA, LLC's pricing grid in effect on the date of delivery. The grid used for the unconsolidated affiliate is identical to the grid used for unrelated third parties. If the cattle sold by the unconsolidated affiliate in a quarter result in a breakeven loss (selling price below accumulated cost to acquire the feeder animal and fatten it to delivered weight) then JBS USA, LLC will reimburse 40% of the average per head breakeven loss incurred by the unconsolidated affiliate on up to 125,000 head delivered to JBS USA, LLC in that quarter. If the cattle sold by the unconsolidated affiliate in a quarter result in a breakeven gain (selling price above the accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA, LLC will receive from the unconsolidated affiliate an amount of cash equal to 40% of that per head gain on up to 125,000 head delivered to JBS USA, LLC in that quarter. There were no payments under the loss-profit sharing provisions of this agreement for the thirteen weeks ended March 29, 2009.

The unconsolidated affiliate has a \$600.0 million secured revolving credit facility with a commercial bank. Its parent company has entered into a keep-well agreement with its subsidiary (the unconsolidated affiliate) whereby it will make contributions to the unconsolidated affiliate if the unconsolidated affiliate is not in compliance with its financial covenants under this credit facility. If the unconsolidated affiliate defaults on its obligations under the credit facility and such default is not cured by its parent under the keep-well agreement, Five Rivers is obligated for up to \$250.0 million of the obligations under this credit facility. This credit facility and the guarantee thereof are secured solely by the fixed assets of the unconsolidated affiliate and Five Rivers. This credit facility matures on October 7, 2011. This credit facility is used to acquire cattle which are then fed in the Five Rivers feed yards pursuant to the cattle supply and feeding agreement described above. The finished cattle are sold to JBS USA, LLC under the cattle purchase and sale agreement discussed above.

Five Rivers is party to an agreement with an unconsolidated affiliate pursuant to which Five Rivers has agreed to loan up to \$200.0 million in revolving loans to the unconsolidated affiliate. The loans are used by the unconsolidated affiliate to acquire feeder animals which are placed in Five Rivers feed yards for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.0% and interest is payable at least quarterly. This credit facility matures October 7, 2011. During the thirteen weeks ended March 29, 2009, average borrowings were approximately \$149.0 million and total interest accrued was approximately \$1.6 million which was recognized as interest income on the statement of operations.

On January 27, 2009, the Company reached agreement with Smithfield Foods for final settlement of the working capital component of the purchase price pursuant to the Stock Purchase Agreement. The settlement called for a payment of \$4.5 million from Smithfield Foods to the Company as full and final settlement of the working capital delivered at October 23, 2008. The Company recorded the settlement as a reduction of purchase price upon receipt.

On February 18, 2009 an agreement was reached with the sellers of National Beef whereby JBS USA Holdings terminated the acquisition process of National Beef effective February 23, 2009. Related litigation with the DOJ was also terminated. As a result of the agreement, JBS USA Holdings, Inc. reimbursed the seller's shareholders a total \$19.9 million in February 2009 as full and final settlement of any and all liabilities related to the potential acquisition.

#### ***Intercompany debt with JBS S.A.***

On March 2, 2008, JBS S.A. contributed \$400 million in additional paid in capital to repay a portion of the \$750 million unsecured bank debt. On June 30, 2008, the Company entered into an unsecured loan agreement with JBS S.A. totaling \$350 million with a maturity date of June 30, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%.

On April 28, 2008, the Company entered into an unsecured loan agreement with its parent, JBS S.A. for \$100 million with a maturity date of April 28, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received from this loan were used to fund the purchase of Tasman Group.

On May 5, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for \$25 million with a maturity date of May 5, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used to fund operations.

On June 30, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for \$25 million with a maturity date of June 10, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used to fund operations.

On October 20, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for \$250 million with a maturity date of October 21, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used in the acquisition of Smithfield Beef Group.

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS HU Liquidity Management LLC (JBS HU), a subsidiary of JBS S.A., which is organized in the country of Hungary, into one note with a stated interest rate of 12% and a 10 year maturity.

On May 6, 2009, the Company entered into an unsecured loan agreement with JBS HU for \$6 million with a maturity date of May 6, 2019. Interest payments are due semi-annually at a rate of 12%. The funds received were used to repay a portion of the intercompany loans with JBS S.A.

### ***Revolving credit facilities***

On February 26, 2008, Swift Australia entered into an Australian dollar denominated \$120 million unsecured credit facility to fund working capital and letter of credit requirements. Under this facility AUD \$80 million can be borrowed for cash needs and AUD \$40 million is available to fund letters of credit. Borrowings are made at the cash advance rate (BBSY) plus a margin of 0.98%. The credit facility contains certain financial covenants which require the Company to maintain predetermined ratio levels related to interest coverage, debt coverage and tangible net worth. This facility has an evergreen renewal term with review periods each June, commencing in 2009.

On November 5, 2008, JBS USA Holdings entered into a secured revolving loan credit agreement (the Credit Agreement) that allows borrowings up to \$400.0 million, and terminates on November 5, 2011. Up to \$75.0 million of the revolving credit facility is available for the issuance of letters of credit. Borrowings that are index rate loans will bear interest at the prime rate plus a margin of 2.25% while LIBOR rate loans will bear interest at the applicable LIBOR rate plus a margin of 3.25%. At December 28, 2008, the rates were 5.50% and 4.66%, respectively. Upon approval by the lender, LIBOR rate loans may be taken for one, two, or three month terms, (or six months at the discretion of the Agent).

On April 27, 2009 the Credit Agreement was amended to allow the execution of the senior unsecured note offering of JBS USA, LLC described below. Under the amendment, the existing limitation on distributions between JBS USA, LLC and JBS USA Holdings was amended to allow for the proceeds of the senior unsecured bond offering, less transaction expenses and \$100 million retained by JBS USA, LLC to be remitted to JBS USA Holdings as a one time distribution. Also, the unused line fee was increased from 37.5 basis points to 50 basis points.

### ***Debt offering***

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS S.A. through JBS HU into one note with a stated interest rate of 12% and a 10 year maturity with a balance of \$133 million at the reporting date.

On April 27, 2009, JBS USA, LLC, a wholly owned subsidiary, entered into a \$700 million senior unsecured note offering bearing interest at 11.625% with interest payable semi-annually and a maturity of May 1, 2014. The proceeds net of expenses were \$650.8 million and were used to repay \$100 million on the Credit Agreement and the balance was used to repay intercompany debt and accrued interest owed to JBS HU.

### **Other**

On October 14, 2008, the Company purchased \$1 million in additional bonds from the City of Cactus, Texas (See Note 3).

On October 23, 2008, JBS USA Holdings issued a promissory note to a third party for approximately \$173 million the proceeds of which were contributed to JBS USA, LLC. The promissory note bears interest at a rate of three-month LIBOR plus 2.0% per annum and matures on December 30, 2016.

The promissory note also contains events of default, including failure to perform or observe terms, covenants or other agreements in the promissory note, payment defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, and entry of unsatisfied judgments of orders against JBS USA Holdings and its subsidiaries. If an event of default occurs and is continuing the payee may accelerate the note and declare all amounts due and payables or at the payee's election, convert amounts owing under the promissory note into voting stock of JBS USA Holdings.

JBS USA Holdings is also party to a raw materials supply agreement with a customer, pursuant to which JBS USA Holdings has agreed that it and its affiliates will sell certain raw materials to such customer on an exclusive basis. To the extent that the customer is required to pay a premium under the supply agreement, an amount equal to such premium is required to be paid in respect of the note. Payments are applied toward accrued interest first and then principal. JBS USA to distribute to JBS USA Holdings payments received from this customer in respect of premium pursuant to the agreement to allow JBS USA Holdings to satisfy its obligations due under the promissory note in accordance with its terms. Amounts outstanding under the promissory note are recorded as long term liabilities in the financial statements of JBS USA Holdings and payments or other reductions in obligations are recorded as the realization of deferred revenue.

On December 29, 2008, JBS USA Holdings, Inc., was renamed JBS USA Holdings, LLC and converted from a C Corporation to a Limited Liability Company. As a result of the conversion in legal form, the outstanding share which was 100% owned by JBS USA Holdings, Inc was converted into a single member interest held by JBS USA Holdings, Inc.

Beginning in mid-April 2009 the world press began publicizing the occurrence of regionalized influenza outbreaks which were linked on a preliminary basis to a hybrid avian/swine/human virus. As a result commencing on April 14, 2009 several foreign countries including Russia, Thailand, Ukraine and Mainland China closed their borders to some or all pork produced in the affected states in the USA or other affected regions in the world. The company is not able to assess whether or when the influenza outbreak might lessen or whether or when additional countries might impose restrictions on the importation of pork products from the USA, nor whether or when the existing import bans might be lifted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholder  
JBS Packerland, Inc.

We have audited the accompanying consolidated balance sheet of Smithfield Beef Group, Inc. (now known as JBS Packerland, Inc.) and subsidiaries as of April 27, 2008, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Five Rivers Ranch Cattle Feeding LLC (a corporation in which the Company has a 50% interest). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Five Rivers Ranch Cattle Feeding LLC, is based on the report of the other auditors as explained in Note 5.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Smithfield Beef Group, Inc. and subsidiaries at April 27, 2008, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

IS ERNST YOUNG LLP

Milwaukee, WI  
March 31, 2009

**Smithfield Beef Group, Inc.**  
**Consolidated balance sheet**  
**April 27, 2008**  
(dollars in thousands)

**Assets**

Current assets:

Cash.....	□	56
Accounts receivable, less allowances of □1,131 .....		110,754
Inventories .....		234,935
Deferred income taxes.....		6,233
Prepaid expenses and other current assets .....		10,314

Total current assets.....		362,292
Property, plant and equipment, net.....		143,889
Investment in Five Rivers Ranch Cattle Feeding LLC.....		157,561
Investment in other joint ventures.....		1,057
Goodwill .....		115,921
Intangible assets.....		4,252
Other assets.....		6,019
		□790,991

**Liabilities and stockholder's equity**

Current liabilities:

Accounts payable.....	□	70,051
Accrued payroll and benefits .....		19,661
Other accrued liabilities .....		28,642
Current portion of long-term debt due third parties.....		1,247

Total current liabilities .....		119,601
Long-term debt due Smithfield Foods, Inc. ....		503,741
Long-term debt due third parties .....		736
Deferred income taxes .....		20,359
Other long-term liabilities .....		21,316

Commitments and contingencies

Stockholder's equity:

Class A Common stock, □01 par value; 15,000 shares authorized, 1,000 shares issued and outstanding .....	□	
Additional paid-in capital.....		242,640
Accumulated deficit.....		(115,038)
Accumulated other comprehensive loss .....		(2,364)

Total stockholder's equity.....		125,238
		□790,991

See accompanying notes.



**Smithfield Beef Group, Inc.**  
**Consolidated statement of operations**  
**For the year ended April 27, 2008**  
(Dollars in thousands)

Net sales .....	□ 2,909,214
Cost of sales.....	2,802,848
Gross profit.....	106,366
Operating costs and expenses:	
Selling, general and administrative expenses .....	61,879
Corporate service fees from Smithfield Foods, Inc.....	16,180
Royalty fees to Smithfield Foods, Inc. ....	4,953
Total operating costs and expenses .....	83,012
Gain on sale of property, plant and equipment.....	2,140
Income from operations .....	25,494
Other income (expense):	
Interest income .....	726
Interest expense:	
Smithfield Foods, Inc. ....	(41,486)
Third parties.....	(278)
Equity in income of Five Rivers Ranch Cattle Feeding LLC.....	12,853
Equity in income of other joint ventures.....	147
Loss before income taxes .....	(2,544)
Provision for income taxes .....	536
Net loss .....	□ (3,080)

See accompanying notes.

**Smithfield Beef Group, Inc.**  
**Consolidated statement of changes in stockholder's equity**  
**For the year ended April 27, 2008**  
(Dollars in thousands)

	Class a common stock		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Stockholder's equity
	Number of shares	Par value				
Balance at April 29, 2007 .....	1,000	□□	□242,640	□(111,958)	□(2,491)	□128,191
Comprehensive loss						
Net loss.....	□	□	□	(3,080)	□	(3,080)
Proportionate loss on derivatives held by Five Rivers Ranch Cattle Feeding LLC.....	□	□	□	□	127	127
Total comprehensive loss .....						(2,953)
Balance at April 27, 2008 .....	1,000	□□	□242,640	□(115,038)	□(2,364)	□125,238

See accompanying notes.

**Smithfield Beef Group, Inc.**  
**Consolidated statement of cash flows**  
**For the year ended April 27, 2008**  
(Dollars in thousands)

**Operating activities**

Net loss .....	□(3,080)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization .....	18,659
Gain on sale of property, plant and equipment.....	(2,140)
Equity in income of Five Rivers Ranch Cattle Feeding, LLC.....	(12,853)
Equity in income of other joint ventures.....	(147)
Deferred income taxes.....	(303)
Changes in operating assets and liabilities:	
Accounts receivable .....	(12,875)
Inventories .....	99,456
Prepaid expenses and other current assets.....	(1,423)
Accounts payable .....	1,202
Accrued liabilities.....	(171)
Other noncurrent assets and liabilities .....	(7,079)
Cash provided by operating activities .....	<u>79,246</u>

**Investing activities**

Additions to property, plant and equipment .....	(12,910)
Proceeds from sale of property, plant and equipment .....	5,961
Other .....	42
Cash used in investing activities .....	<u>(6,907)</u>

**Financing activities**

Net payments under debt agreement with Smithfield Foods, Inc. ....	(76,178)
Payments on debt due third parties .....	(1,105)
Cash used in financing activities .....	<u>(77,283)</u>
Decrease in cash .....	(4,944)
Cash at beginning of the year .....	5,000
Cash at the end of the year .....	<u>□56</u>

**Supplemental disclosures of cash flow information**

Cash paid for interest to third parties .....	□269
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See accompanying notes.

# Smithfield Beef Group, Inc.

## Notes to consolidated financial statements

### April 27, 2008

#### 1. Description of the business

##### *Basis of presentation*

Smithfield Beef Group, Inc. (the Company or Smithfield Beef Group) now known as JBS Packerland, Inc., processes, prepares, packages and delivers fresh, further-processed and value-added beef products for sale to customers in the United States and international markets from four beef processing facilities. Smithfield Beef Group sells beef products to customers in the foodservice, international, further processor and retail distribution channels. Smithfield Beef Group also produces and sells by-products that are derived from its beef processing operations and variety meats to customers in various industries.

##### *Sale of the company*

On October 23, 2008, Smithfield Foods, Inc., (the owner of Smithfield Beef Group prior to this date) completed the sale of Smithfield Beef Group, to a wholly-owned subsidiary of JBS S.A., a company organized and existing under the laws of Brazil, for \$565 million, net of postclosing adjustments. The sale included 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50:50 joint venture with Continental Grain Company (CGC).

#### 2. Significant accounting policies

##### *Principles of consolidation*

The consolidated financial statements include all wholly-owned subsidiaries. The Company's investments in Five Rivers, Five Star Cattle Solutions, LLC and Mountain View Rendering Co. LLC are accounted for under the equity method. The Company has a 50% ownership in each of these entities. All intercompany transactions and balances have been eliminated.

The Company's fiscal year consists of either 52 or 53 weeks, ending on the Sunday nearest April 30<sup>th</sup>. The Company's fiscal year ended April 27, 2008, consisted of 52 weeks.

##### *Employees*

Certain hourly employees of the Company's production facilities are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company has one union contract expiring in fiscal 2009. Union employees represent approximately 42% of the total employees of the Company at April 27, 2008.

##### *Use of estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Financial instruments*

The carrying value of the Company's financial instruments, including cash, accounts receivable, accounts payable and long-term debt at April 27, 2008, approximates fair value.

### **Accounts receivable**

The Company has a diversified customer base, which includes customers located in foreign countries. The Company controls credit risk related to accounts receivable through credit appraisals, credit limits, letters of credit, and monitoring procedures. The Company evaluates the collectability of its accounts receivable balance based on a general analysis of past due receivables and a specific analysis of certain customers that management believes will be unable to meet their financial obligations due to economic conditions, industry-specific conditions, historical or anticipated performance, and other relevant circumstances. The Company continuously performs credit evaluations and reviews of its customer base. The Company believes this process effectively addresses its exposure to accounts receivable write-offs; however, if circumstances related to changes in the economy, industry, or customer conditions change, the Company may need to subsequently adjust the allowance for doubtful accounts. The Company adheres to normal industry collection terms of net seven days.

### **Inventories**

Inventories consist primarily of product, live cattle, and manufacturing supplies. Product inventories are considered commodities and are valued based on quoted commodity prices, which approximate net realizable value less cost to complete and disposal costs. Product inventories are relieved from inventory utilizing the first-in, first-out method. Live cattle includes the purchase cost of the cattle, direct materials, supplies, and feed. Cattle are reclassified from live cattle to carcass inventory at time of slaughter. Manufacturing supplies are valued at the lower of first-in, first-out cost, average cost or market.

### **Property, plant and equipment, net**

Property, plant and equipment is stated at cost, and is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

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Buildings and improvements .....	20 □ 40 years
Machinery and equipment .....	5 □ 10 years
Automobiles and trucks .....	3 □ 5 years
Furniture and fixtures .....	5 years
Computer hardware .....	5 years
sehold improvements .....	Shorter of useful life or the lease term

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Depreciation expense is included as either cost of sales or selling, general and administrative expenses, as appropriate, and totaled □17.9 million in fiscal 2008. Repairs and maintenance charges are expensed as incurred and totaled □20.1 million in fiscal 2008. Improvements that materially extend the life of the asset are capitalized. Gains and losses from dispositions or retirements of property, plant and equipment are recognized in the period they occur. Interest is capitalized on property, plant and equipment during the construction period. There was no interest capitalized in fiscal 2008.

The Company periodically assesses the recoverability of long-lived assets, including property and equipment, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that all long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying value of such assets to the undiscounted future cash flows expected to be generated by the assets. If the carrying value of an asset exceeds its estimated undiscounted future cash flows, an impairment provision is recognized to the extent that the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value of the asset, less costs of disposition. Management considers such factors as current results, trends and future prospects, current market value, and other economic and regulatory factors in performing these analyses. The Company determined that no long-lived assets were impaired as of April 27, 2008.

### **Goodwill and intangible assets**

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Indefinite-lived intangible assets consist of tradenames.

Goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter, or sooner if impairment indicators arise in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The fair value of indefinite-lived intangible assets is estimated based upon discounted future cash flow projections. In reviewing goodwill for impairment, potential impairment is identified by comparing the estimated fair value of a reporting unit to its carrying value.

The fair value of a reporting unit is estimated by applying valuation multiples or estimating future discounted cash flows. The selection of multiples is dependent upon assumptions regarding future levels of operating performance as well as business trends, prospects and market and economic conditions. When estimating future discounted cash flows, the Company considers the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on the Company's cost of capital or location-specific economic factors. When the fair value is less than the carrying value of the net assets of a reporting unit, including goodwill, an impairment loss may be recognized. The Company has determined that goodwill and indefinite-lived assets were not impaired as of April 27, 2008.

Intangible assets with finite lives consist of patents, which are amortized over their estimated useful life of 15 years. Patents, net of accumulated amortization of \$0.5 million, were \$1.1 million at April 27, 2008. Patent amortization expense for the fiscal year ended April 27, 2008, totaled \$0.1 million and is estimated to be approximately the same amount in each of the subsequent five years.

### **Investments**

The Company records its share of earnings and losses from its equity method investments in "Equity in income (loss) of affiliates" in the accompanying consolidated statement of operations. The Company considers whether the fair values of any of the equity-method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any such decline to be other than temporary, then a write-down of the investment would be recorded to its estimated fair value. The Company has determined that no write-downs were necessary as of April 27, 2008.

### **Income taxes**

The Company is included in the consolidated U.S. federal income tax return of Smithfield Foods, Inc. A formal tax-sharing agreement between Smithfield Foods, Inc. and the Company does not exist. The benefit for income taxes in the accompanying consolidated statement of operations has been calculated as if a consolidated federal and appropriate state income tax returns had been filed separately by the Company. Deferred income taxes are provided on the differences in the book and tax basis of assets and liabilities at the statutory tax rates expected to be in effect when such temporary differences are expected to reverse. A valuation allowance is provided on the tax benefits otherwise associated with certain tax attributes unless it is considered more likely than not that the benefits will be realized. Smithfield Foods, Inc. pays domestic taxes on behalf of the Company and reflects the funding through an intercompany payable account.

The determination of the provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. Reserves are established when, despite the Company's belief that its tax return positions are fully supportable, the Company believes that certain positions may be successfully challenged. When facts and circumstances change, these reserves are adjusted through the provision for income taxes.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective April 30, 2007. The Company accrues interest and penalties related to unrecognized tax benefits as other noncurrent liabilities and recognizes the related expense as income tax expense.

### **Derivative financial instruments and hedging activities**

The Company uses various raw materials, primarily live cattle and corn, which are actively traded on commodity exchanges. The Company hedges these commodities when it determines conditions are appropriate to mitigate these price risks. While such hedging may limit the Company's ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. The Company attempts to closely match the commodity contract terms with the hedged item.

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Since none of the Company's derivative instruments were designated as hedges in accordance with SFAS No. 133, the gain or loss related to the change in fair

value for each derivative instrument is recognized in operations during the period of change. For the year ended April 27, 2008, the Company recognized a gain of □24.8 million, which is included in cost of sales in the accompanying consolidated statement of operations related to derivative financial instruments. As of April 27, 2008, the fair value of derivative financial instruments was □2.6 million and is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet.

The Company records its proportionate share of the fair value of derivative financial instruments entered into by Five Rivers through other comprehensive loss as these derivative financial instruments are accounted for under hedge accounting.

### ***Self-insurance programs***

The Company is self-insured for certain levels of general and vehicle liability, property, workers' compensation, product recall and healthcare coverage. The cost of these self-insurance programs is accrued based upon estimated settlements for known and anticipated claims. Any resulting adjustments to previously recorded reserves are reflected in operations.

### ***Revenue recognition***

The Company recognizes revenues from product sales when title passes upon delivery to its customers. Revenue is recorded at the invoice price for each product, net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and trade allowance programs with customers, primarily discounts and rebates based on achievement of specified volume or growth in volume levels.

### ***Advertising and promotional costs***

Advertising costs are expensed as incurred. Promotional sponsorship costs are expensed as the promotional events occur. Advertising and promotional costs totaled □2.2 million in fiscal 2008.

### ***Shipping and handling costs***

Shipping and handling costs charged to customers are included in net sales, and the related costs are included in cost of sales.

### ***Segment reporting***

The Company operates in one segment: the raising, processing and packaging of beef products for sale to customers in the United States and international markets.

### ***Recent accounting pronouncements***

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. SFAS No. 161 requires (1) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure; (2) information about the volume of derivative activity; (3) tabular disclosures about the balance sheet location and gross fair value of derivative instruments, and income statement and other comprehensive income location and amounts of gains and losses on derivative instruments by contract type; and (4) disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and disclosure requirements on how to recognize, measure and present the assets acquired, the liabilities assumed, any noncontrolling interests in the acquired company, and any goodwill recognized in a business combination. The objective of SFAS No. 141R is to improve the information included in financial reports about the nature and financial effects of business combinations. This statement is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for a noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements, rather than as a liability or in the mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income to be reported at amounts that include the amounts

attributable to both the parent and the noncontrolling interest. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008, for nonfinancial assets and liabilities. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

### 3. Inventories

The components of inventories at April 27, 2008, net of reserves of \$1.5 million, are as follows (in thousands):

Live cattle .....	\$146,325
Product inventories:	
Fresh and packaged meats .....	56,010
Carcass inventory .....	15,238
Manufacturing supplies .....	14,582
Other .....	2,780
	\$234,935

The sale of the Smithfield Beef Group as discussed in Note 1, excluded substantially all live cattle inventories held by the Company and Five Rivers as of the transaction date. Live cattle owned by Five Rivers on the transaction date were transferred to a new 50:50 joint venture between Smithfield Foods, Inc. and CGC, while live cattle owned by Smithfield Beef Group on the transaction date were transferred to a subsidiary of Smithfield Foods, Inc. The excluded live cattle will be raised by JBS Packerland, Inc. for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods, Inc./CGC joint venture or to Smithfield Foods, Inc., as appropriate. The live cattle inventories are expected to be sold within six months after the transaction date, with substantially all live cattle sold within 12 months after the transaction date.

### 4. Property, plant and equipment, net

Property, plant and equipment, net consist of the following at April 27, 2008 (in thousands):

Land .....	\$13,946
Buildings and improvements .....	90,619
Machinery and equipment .....	127,021
Automobiles and trucks .....	5,629
Furniture and fixtures .....	3,581
Computer hardware .....	2,835
Leasehold improvements .....	176
Construction in progress .....	14,032
	257,839
Accumulated depreciation .....	(113,950)
	\$143,889

On December 21, 2007, the Company sold the land and buildings of its Showcase facility, located in Philadelphia, PA, for approximately \$5.2 million. As a result of the sale, the Company recorded a gain of approximately \$2.3 million. In addition, the Company paid approximately \$5.8 million to exit its equipment lease agreement with a third party and purchase all the leased equipment.



The sale of the Smithfield Beef Group, as discussed in Note 1, excluded certain land and land improvements that totaled \$9.2 million at April 27, 2008.

## 5. Investment in Five Rivers

In fiscal 2006, Smithfield Beef Group and CGC formed Five Rivers, a 50:50 joint venture. Five Rivers is a stand-alone operating company, independent from the Company and CGC, currently headquartered in Greeley, Colorado, with a total of ten feedlots located in Colorado, Idaho, Kansas, Oklahoma and Texas. Five Rivers sells cattle to multiple U.S. beef packing firms using a variety of marketing methods. Five Rivers has a fiscal year ended March 31, 2008, and was audited by other auditors.

For its 50% interest in Five Rivers, the Company has contributed cash of \$106.3 million and net assets of \$44.7 million. There currently exists a difference between the carrying amount of the Company's investment in Five Rivers and the Company's proportionate share of its underlying equity in the net assets of Five Rivers primarily due to the difference in the fair value of cash and net assets contributed by the Company in relation to its ownership interest in Five Rivers.

Following is a reconciliation of the investment in Five Rivers and equity in income of Five Rivers as of and for the year ended April 27, 2008, from the report of other auditors to the amounts included in the accompanying financial statements (in thousands):

50% interest in the net assets of Five Rivers at March 31, 2008 (per report of other auditors).....	\$157,385
Excess of the cost of investment over the amount of underlying equity in net assets of Five Rivers .....	22,828
50% interest in the loss of Five Rivers for the month ended April 27, 2008 .....	(5,736)
50% interest in other comprehensive loss of Five Rivers for the month ended April 27, 2008.....	(16,916)
Investment in Five Rivers at April 27, 2008 .....	<u>\$157,561</u>
Equity in income of Five Rivers for the year ended March 31, 2008 (per report of other auditors).....	\$ 18,729
Less proportionate share of the income of Five Rivers for the month ended April 29, 2007.....	(140)
Plus proportionate share of the loss of Five Rivers for the month ended April 27, 2008.....	(5,736)
Equity in income of Five Rivers for the year ended April 27, 2008 .....	<u>\$ 12,853</u>

Five Rivers meets the definition of a significant subsidiary (per Regulation S-X) with respect to the Company. Condensed financial statements for Five Rivers as of March 31, 2008, and for the year ended March 31, 2008, are presented below (in thousands):

Current assets .....	\$ 647,245
Noncurrent assets .....	103,936
Current liabilities.....	436,242
Noncurrent liabilities.....	170
Revenues .....	\$1,657,103
Costs and expenses.....	1,593,731
Operating income .....	63,372
Net income .....	<u>37,457</u>

## 6. Other assets

Other assets consist of the following at April 27, 2008 (in thousands):

Other assets:	
Aircraft.....	\$2,065
Deposit.....	725
Tax benefit related to uncertain tax positions .....	2,057
Computer software.....	380
Other noncurrent assets .....	792
	<u>\$6,019</u>

Other assets include the Company's 25% ownership interest in an aircraft and a deposit with the Arizona Department of Water Resources for water rights related to its facility in Tolleson, Arizona. The ownership interest in the aircraft was purchased on December 31, 2004 for \$2.6 million and is being depreciated over its useful life of 20 years. Amortization of capitalized computer software was \$0.7 million in fiscal 2008.

## 7. Long-term debt

Long-term debt consists of the following at April 27, 2008 (in thousands):

Long-term debt due Smithfield Foods, Inc.:	
Debt due Smithfield Foods, Inc.....	\$304,316
Term notes due SFFC, Inc. ....	199,425
	<u>\$503,741</u>
Other long-term debt due third parties:	
Note payable.....	\$ 989
Other .....	994
	<u>1,983</u>
Less current portion .....	1,247
	<u>\$736</u>

The Company had a lending arrangement with Smithfield Foods, Inc., under which Smithfield Foods, Inc. financed the working capital needs of the Company. Amounts outstanding under the facility bore interest at rates ranging between 4.5% and 7% as of April 27, 2008. The lending agreement did not have a stated maturity date nor did it contain any financial covenants. The debt with Smithfield Foods, Inc. has been classified as long term based on the intent of Smithfield Foods, Inc. for these amounts not to be repaid in the next fiscal year.

On January 1, 2007, the Company entered into a series of term notes with SFFC, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) totaling \$199.4 million. The term notes bear interest at 7.75% and are due December 31, 2016. The term notes do not contain any financial covenants.

In connection with the purchase of Murco, Inc., now known as JBS Plainwell, Inc., the Company issued a note payable (Note) to the former owner for \$13.3 million. Principal and interest payments under the Note are due weekly, decreasing from \$30,000 to \$20,000 over the life of the Note. As the Note does not bear interest, the Company discounted the estimated future cash flows under the Note and adjusted the carrying value of the Note to \$8.2 million at the purchase date, which approximated the fair value of the Note. The effective interest rate on the Note is 10% and the Note matures May 12, 2009.

## 8. Income taxes

Significant components of the provision for income taxes for the year ended April 27, 2008, are as follows (in thousands):

Current tax expense (benefit):	
Federal.....	\$(1,034)
State.....	1,873
	<u>839</u>
Deferred tax benefit:	
Federal.....	(273)
State.....	(30)
	<u>(303)</u>
	<u>\$ 536</u>

A reconciliation of income tax benefit computed at the federal statutory rate to the provision for income taxes is as follows (in thousands):

Federal income tax benefit at statutory rate.....	□(890)
State income taxes, net of federal tax benefit.....	617
Manufacturer's production deduction.....	(274)
Increase in uncertain tax positions, net.....	944
Other .....	139
	<u>□536</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax reporting purposes. Significant components of the Company's deferred income tax assets and liabilities as of April 27, 2008, are as follows (in thousands):

Deferred tax assets:	
State net operating losses .....	□ 9,486
Accrued liabilities .....	9,124
Employee benefits .....	865
Inventories .....	514
Allowances.....	924
Valuation allowance.....	(7,490)
Total deferred tax assets.....	<u>13,423</u>
Deferred tax liabilities:	
Property, plant and equipment.....	(19,621)
Investments.....	(4,878)
Intangible assets.....	(3,050)
Total deferred tax liabilities .....	<u>(27,549)</u>
Net deferred tax liabilities.....	<u>□(14,126)</u>

Deferred tax assets and liabilities are recorded in the accompanying consolidated balance sheet as follows:

Current deferred tax assets.....	□ 6,233
Noncurrent deferred tax liabilities.....	(20,359)
Total deferred tax assets.....	<u>□(14,126)</u>

The Company had state net operating loss carryforwards of □189.7 million at April 27, 2008. A partial valuation allowance has been established against the state net operating loss carryforwards at April 27, 2008, as the Company does not believe it is more likely than not that the carryforward will be utilized in full prior to expiration. State net operating losses generally begin to expire 5 to 20 years after they are generated.

A reconciliation of the beginning and ending liability for uncertain tax positions is as follows (in thousands):

Balance as of April 30, 2007 .....	□5,592
Additions for tax positions taken in the current year.....	993
Additions for tax positions taken in prior years .....	125
Settlements with taxing authorities .....	(2,310)
Lapse of statute of limitations .....	(174)
Balance as of April 27, 2008 .....	<u>□4,226</u>

The Company operates in multiple taxing jurisdictions within the United States, and is subject to audits from various tax authorities. As of April 27, 2008, the liability for uncertain tax positions included □1.5 million of accrued interest and penalties. The Company recognized □0.5 million of interest expense in tax expense during fiscal 2008. As of April 27, 2008, the liability for uncertain tax positions included □3.7 million that, if recognized, would impact the effective tax rate.

## 9. Other accrued liabilities

Other accrued liabilities consist of the following at April 27, 2008 (in thousands):

Feed .....	□12,108
Self-insurance reserves .....	3,000
Utilities .....	2,898
Freight .....	2,084
Customer programs .....	1,120
Litigation-related matters .....	935
Property taxes .....	724
Legal and professional fees .....	483
Other .....	5,290
	□28,642

## 10. Retirement plans

The Company sponsors three defined contribution plans, which cover the majority of full-time truck drivers, salaried and office personnel, and certain hourly plant employees under a multiple-employer plan administered by Smithfield Foods, Inc. Contributions under the plans are based on miles driven by certain truck drivers and on a percentage of salary or rate per hour for other personnel. Retirement benefits are based upon the amount allocated to each individual's separate account and are fully funded. Total expense related to these plans were □1.5 million in fiscal 2008.

## 11. Commitments

The Company leases tractors, trailers, automobiles, railcars, buildings and equipment under operating lease agreements. Certain of the lease agreements contain renewal or purchase options as well as rental escalation clauses. The lessor assigned its rights under one of the building leases to Smithfield Foods, Inc. concurrent with the sale of Smithfield Beef Group. Future minimum rental payments for leases having initial or remaining noncancelable lease terms in excess of one year are presented below and reflect the assignment of the building lease to Smithfield Foods, Inc. (in thousands):

Fiscal Year	Related-party	Third parties	Total
2009 .....	□780	□5,571	□6,351
2010 .....	780	4,351	5,131
2011 .....	780	3,946	4,726
2012 .....	780	3,069	3,849
2013 .....	780	2,116	2,896
Thereafter .....	15,784	10,720	26,504
	□19,684	□29,773	□49,457

Total rental expense for operating leases was □10.2 million in fiscal 2008.

As of April 27, 2008, the Company had capital expenditure commitments of approximately □6.6 million. The Company also has purchase commitments with certain cattle producers that obligate the Company to purchase all of the cattle that these producers deliver. The Company has entered into commodity forward contracts that obligate the Company to purchase a fixed amount of cattle at fixed prices. As of April 27, 2008, the Company had □490.3 million of commodity forward contracts for the purchase of live cattle. As of April 27, 2008, the Company was also committed to purchase approximately □3.0 million of fixed forward corn contracts. The Company believes the risk of default or nonperformance on contracts with counterparties is not significant.

## 12. Related-party transactions

The Company has a trademark and license agreement with SF Investments, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) for the right to use certain trademarks of Smithfield Foods, Inc. in connection with the sale of certain food products. The Company made royalty payments of □5.0 million during fiscal 2008 related to this agreement.

Through an informal agreement with its parent, Smithfield Foods, Inc., the Company was provided certain administrative services by Smithfield Foods, Inc. During fiscal 2008, the Company was charged □16.2 million under this arrangement.

### **13. Regulations and litigation**

The Company is subject to various laws and regulations administered by federal, state and other government entities, including the Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration and similar agencies in foreign countries. The Company believes that it is in compliance with these laws and regulations in all material respects and that continued compliance with these laws and regulations will not have a material adverse effect on its financial position or results of operations or cash flows.

In February 2003, the EPA promulgated regulations under the Clean Water Act governing confined animal feeding operations (CAFOs). Among other things, these regulations impose obligations on CAFOs to manage animal waste in ways intended to reduce the impact on water quality. These new regulations were challenged in federal court by both industry and environmental groups. Although a 2005 decision by the court invalidated several provisions of the regulations, they remain largely intact.

From time to time and in the ordinary course of its business, the Company is named as a defendant in legal proceedings related to various issues, including worker's compensation claims, tort claims and contractual disputes. While the resolution of such matters may have an impact on the Company's financial results for the period in which they are resolved, the Company believes that the ultimate disposition of these matters will not, individually or in the aggregate, have a material adverse effect upon its business or consolidated financial statements.

# Report of independent registered public accounting firm

To the Board of Managers and Members of  
Five Rivers Ranch Cattle Feeding LLC  
Loveland, Colorado

We have audited the accompanying balance sheet of Five Rivers Ranch Cattle Feeding LLC (the "Company") as of March 31, 2008, and the related statements of operations, members' equity and comprehensive income (loss), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche LLP  
Denver, Colorado  
May 30, 2008

# Five Rivers Ranch Cattle Feeding LLC

## Balance sheet as of March 31, 2008

(in thousands)

2008

### Assets

#### CURRENT ASSETS:

Cash and cash equivalents.....	□	3
Receivables .....		13,667
Receivables □ affiliates .....		3,152
Inventory .....		600,161
Advance deposits on cattle.....		1,567
Derivative asset .....		27,792
Prepaid expenses and other current assets.....		903
Total current assets .....		647,245

#### PROPERTY, PLANT, AND EQUIPMENT:

Land and land improvements .....		65,581
Buildings .....		8,898
Machinery, equipment, and fixtures.....		33,347
Capitalized software .....		636
Construction-in-progress .....		2,009

Total property, plant, and equipment.....		110,471
Less accumulated depreciation .....		22,132

Net property, plant, and equipment.....		88,339
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INTANGIBLE ASSETS.....		12,144
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OTHER ASSETS .....		3,453
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TOTAL.....		□751,181
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### Liabilities and Members' Equity

#### CURRENT LIABILITIES:

Cash overdraft .....	□	11,171
Borrowings on margin accounts .....		10,012
Accounts payable.....		9,156
Accrued liabilities .....		5,197
Derivative liability .....		5,406
Revolving line of credit.....		395,300

Total current liabilities.....		436,242
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Deferred compensation .....		170
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Total liabilities .....		436,412
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#### COMMITMENTS AND CONTINGENCIES (Note 7)

#### MEMBERS' EQUITY:

Members' equity paid-in capital .....		274,416
Accumulated other comprehensive income.....		29,104
Retained earnings.....		11,249

Total members' equity .....		314,769
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TOTAL.....		□751,181
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See notes to financial statements.

**Five Rivers Ranch Cattle Feeding LLC**  
**Statement of operations**  
**for the year ended March 31, 2008**  
(in thousands)

	<b>2008</b>
<b>REVENUES:</b>	
Live cattle sales .....	□1,537,178
Feedlot sales.....	95,057
Other .....	24,868
Total revenues.....	1,657,103
<b>COST AND EXPENSES:</b>	
Cost of sales .....	1,578,635
General and administrative expenses .....	15,179
Gain on disposal of assets.....	(83)
Total cost and expenses.....	1,593,731
<b>OPERATING INCOME</b> .....	<b>63,372</b>
<b>OTHER (INCOME) EXPENSE:</b>	
Interest expense and other financing costs .....	28,893
Interest and investment income.....	(1,095)
Loss on involuntary conversion of assets.....	109
Other income .....	(190)
Gain on settlement.....	(1,802)
Total other expense □ net.....	25,915
<b>NET INCOME</b> .....	<b>□ 37,457</b>

See notes to financial statements.



**Five Rivers Ranch Cattle Feeding LLC**  
**Statement of members' equity and comprehensive income**  
**(loss)**  
**for the year ended March 31, 2008**  
(In thousands)

	Members' Equity, Paid-In Capital	Comprehensive Income	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE □ April 1, 2007.....	□274,416		□(26,208)	□(8,634)	□239,574
Comprehensive income:					
Net income .....		□37,457	37,457		37,457
Other comprehensive income:					
Net gain on cash flow hedges .....		29,104			
Reclassification adjustment for losses included in net income .....		8,634			
Other comprehensive income ....		<u>37,738</u>		37,738	37,738
Comprehensive income .....		□75,195			
BALANCE □ March 31, 2008.....	□274,416		□11,249	□29,104	□314,769

See notes to financial statements.

**Five Rivers Ranch Cattle Feeding LLC**  
**Statement of cash flows**  
**For the year ended March 31, 2008**  
(in thousands)

**2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income.....	\$37,457
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization.....	9,637
Gain on disposal of assets.....	(83)
Loss on involuntary conversion of assets.....	109
Gain on involuntary conversion of assets.....	(1,200)
Equity in earnings of investee.....	(267)
Dividends received from investee.....	375
Changes in operating assets and liabilities:	
Cash overdraft.....	(3,192)
Inventory.....	(96,054)
Derivative instruments.....	2,105
Receivables.....	(1,307)
Prepaid expenses and other assets.....	19,973
Accounts payable, accrued liabilities, and deferred liabilities.....	793
Net cash used in operating activities.....	(31,654)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Proceeds from sales of assets.....	139
Insurance proceeds related to fixed assets.....	1,200
Investment in unaffiliated company.....	(500)
Additions to property, plant, and equipment.....	(13,883)
Net cash used in investing activities.....	(13,044)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Net increase in revolving line of credit.....	34,700
Equity contributions by Members.....	10,012
Net increase in borrowings on margin accounts with brokers.....	(17)
Other.....	44,695
Net cash provided by financing activities.....	44,695

NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(3)
CASH AND CASH EQUIVALENTS □ Beginning of period.....	6
CASH AND CASH EQUIVALENTS □ End of period.....	□ 3
Cash paid during the period for interest.....	□28,103

See notes to financial statements.

# Five Rivers Ranch Cattle Feeding LLC

## Notes to financial statements

### As of and for the year ended March 31, 2008

#### 1. Nature of business

**Business and Basis of Presentation** Five Rivers Ranch Cattle Feeding LLC (the "Company") is a limited liability company organized on May 20, 2005, in the state of Delaware. Prior to May 20, 2005, the assets and liabilities of the Company were owned by ContiBeef LLC ("ContiBeef"), a wholly owned subsidiary of Continental Grain Company ("CGC"), and MF Cattle Feeding, Inc. ("MF"). ContiBeef is a wholly-owned subsidiary of Continental Grain Company, and MF is a wholly-owned subsidiary of Cattle Production Systems, Inc. ("CPS"), whose parent company is Smithfield Beef Group, Inc. ("Smithfield Beef"), which is a wholly-owned subsidiary of Smithfield Foods, Inc. On May 20, 2005, the operating assets and certain liabilities of ContiBeef and MF were transferred to the Company at net book value in exchange for equity interests in the Company. The Company is a 50:50 joint venture between ContiBeef and MF (the "Members"). The Members exercise joint control over the Company.

The Company is engaged in the raising of feeder cattle for the Company and for outside customers, and the sale of live cattle to meat packing companies ("packers"). The Company's sales and cost of sales are significantly affected by market price fluctuations of its principal products sold and of its principal commodity inputs—feeder cattle and corn. Feedlot operations are located in Idaho, Texas, Colorado, Kansas, and Oklahoma.

The Company owns a 50% interest in Northern Colorado Feed, LLC, which is an unconsolidated subsidiary accounted for under the equity method. The contributed investment to Five Rivers was approximately \$1 million, which is recorded within Other Assets in the balance sheets. The Company's share of earnings in the investment for the year ended March 31, 2008 was approximately \$267,000 and is recorded in interest and investment income in the statement of operations. During the year ended March 31, 2008, the Company received dividends of approximately \$375,000.

During 2008 the Company began a strategic alliance with Southfork Solutions, Inc. ("Southfork") which included the purchase of 500,000 shares of Southfork stock through a private placement. Southfork is in the process of developing animal identification technology in which Five Rivers' locations are serving as test sites. This investment is accounted for under the cost method and carried a balance of \$500,000 as of March 31, 2008 and is recorded within Other Assets in the balance sheet.

On March 5, 2008, Smithfield Foods, Inc. announced that it signed a definitive agreement to sell Smithfield Beef Group, Inc., including 100% of the ownership of Five Rivers, to JBS S.A. ("JBS"). Smithfield Foods and CGC entered into an agreement providing that, immediately before the closing of the JBS transaction, Smithfield Beef will acquire from CGC the 50% of Five Rivers that it does not presently own in return for 2.167 million shares of Smithfield common stock. Live cattle currently owned by Five Rivers will be transferred to a new 50:50 joint venture between Smithfield Foods and CGC. The excluded live cattle will be raised by JBS after closing for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods:CGC joint venture.

#### 2. Significant accounting policies

**Revenue Recognition** The Company sells live cattle to packers located primarily in Colorado, Idaho, Nebraska, Kansas and Texas. Revenue is recognized when live cattle are shipped to customers, based on terms as set forth by The Packers and Stockyards Act of 1921. The Company records transactions based on lot by lot accounting, recognizing revenue as cattle are shipped or on delivery depending on the terms of the sale, and will adjust revenues to reflect the results of the grading process as reported to the Company by the packer. Risk of loss transfers to the packer upon shipment, unless the Company has hired the transporter for shipment, in which case risk of loss transfers at delivery. Hotel revenue charged to customers for cattle feeding and care is recognized on a daily basis and is recorded in feedlot sales in the statement of operations. Animal feed supplement sold to third parties is recognized when the product is delivered and is recorded in feedlot sales in the statement of operations.

**Derivative Instruments** The Company enters into futures and option contracts for the purpose of hedging exposures to changes in commodity prices, primarily live cattle, feeder cattle, and corn. These contracts are accounted for as derivatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This statement requires the Company to record all derivatives on the balance sheet. The Company has reflected derivatives at fair value. Derivatives that are not accounted for as hedges must be adjusted to fair value through current earnings. For derivatives designated as cash flow hedges and used to hedge an anticipated transaction, changes in the fair value of the derivatives are deferred in the balance sheet in

accumulated other comprehensive income (loss) to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction. Any ineffectiveness associated with the hedge, along with gains and losses on derivatives not designated as hedges, are recognized immediately in the statement of operations within other revenues. Amounts deferred within accumulated other comprehensive income (loss) are recognized in the statement of operations within cost of sales upon the completion of the related hedged transaction.

**Cash and Cash Equivalents** □ Cash equivalents are composed of all highly liquid investments with original maturities of three months or less. Book overdrafts are reclassified to current liabilities.

**Margin Accounts** □ The Company maintains margin deposits with brokers as collateral on open positions in derivative instruments. These deposits are not included in the balance of cash and cash equivalents as the balances, when positive, are not able to be withdrawn by the Company at any time. When the Company's derivative positions are in an asset position the Company is allowed to borrow against the margin accounts. As of March 31, 2008 the Company had net borrowings on margin accounts with brokers.

**Inventories** □ Live cattle inventories and inventories of feed, silage, processing supplies, and medication are stated at the lower of cost (first-in, first-out) or market.

**Property, Plant, and Equipment** □ Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment is provided by the straight-line method over the estimated useful lives of 25 years for farm buildings, 10 to 30 years for land improvements and buildings, and 2 to 12 years for machinery, equipment, furniture, and purchased software. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the year ended March 31, 2008 was □8.7 million.

**Intangible Assets** □ The Company has recorded intangible assets in the form of water rights with indefinite lives at the Kuner and Gilcrest feedlots which were contributed to the Company by MF. This intangible asset is recorded at its carryover basis of □12.1 million. The Company's annual impairment testing date coincides with its fiscal year-end. If an assessment indicates impairment, the impaired asset is written down to its fair value based on the best information available in accordance with SFAS 142, *Goodwill and Other Intangible Assets*. There were no impairments recorded for the year ended March 31, 2008.

**Debt Issuance Costs** □ Debt issuance costs of □4.5 million are capitalized and are being amortized over the terms of the related loan agreements using the straight-line method. Accumulated amortization of the debt issuance costs was approximately □2.7 million at March 31, 2008.

**Impairment of Long-Lived Assets** □ The Company continually evaluates the carrying value of its long-lived assets for events or changes in circumstances which may indicate that the carrying value may not be recoverable in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

**Income Taxes** □ The Company is treated as a flow-through entity for income tax purposes and, therefore, the Company's taxable income is included in the Members' respective consolidated U.S. federal income tax returns. The Company is not allocated any current or deferred U.S. federal income expense (benefit) arising from the Company's operations included in the Members' results.

**Self-Insurance Accruals** □ The Company is self-insured for expected losses under its workers compensation and automobile liability programs. Reserves recorded for workers compensation and automobile liability claims were □1,038,000 at March 31, 2008 based upon estimates of the ultimate costs to settle incurred claims, both reported and unreported.

**Accounting Estimates** □ The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements** □ In September, 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. In developing this standard, the FASB considered the need for increased consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price.) The emphasis on fair value is that it is a market-based measurement, and the statement clarifies that market participant assumptions include assumptions about risk, therefore, a measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one in pricing the related asset or liability. The guidance in this statement applies to derivatives and other financial instruments

measured at fair value under Statement 133 at initial recognition and in all subsequent periods. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, issued in February 2008, defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a regular basis. The Company is currently evaluating the effect that these Statements will have on the Company's financial statements.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value with the associated unrealized gain/loss in earnings. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related financial assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the effect that this Statement will have on the Company's financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosure about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133* (SFAS 161). The adoption of SFAS 161 is not expected to have an impact on the Company's consolidated financial statements, other than additional disclosures. SFAS 161 expands annual disclosures about derivative and hedging activities that are intended to better convey the purpose of derivative use and the risks managed. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS 160). As the Company owns 100% of its consolidated subsidiaries and it does not currently have any minority interests, the Company does not expect the adoption of SFAS 160 to have an impact on its consolidated financial statements. This statement amends ARB No. 51 and intends to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards of the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R may have an impact on the Company's consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company consummates after the effective date. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in business combinations and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires the evaluation of tax positions taken by the Company to determine whether it is "more-likely-than-not" that those tax positions will be ultimately sustained. A tax liability and expense must be recorded in respect of any tax position that, in Management's judgment, will not be fully realized. In February 2008 the FASB issued FASB Staff Position No. FIN 48-2 which deferred the effective date for certain non-public enterprises to fiscal years beginning after December 31, 2007. The Company has evaluated the implications of FIN 48 and does not currently anticipate any impact to the Company's financial statements. The Company will continue to monitor the Company's tax positions prospectively for potential future impacts

### 3. Receivables

Receivables at March 31, 2008 were as follows (in thousands):

	<b>2008</b>
Trade .....	\$13,584
Affiliates .....	3,152
Employee advances .....	82
Other .....	1
<b>Total receivables .....</b>	<b>\$16,819</b>

## 4. Inventory

Inventory balances at March 31, 2008 were as follows (in thousands):

	<b>2008</b>
Livestock .....	□574,082
Silage .....	13,657
Feed .....	10,356
Medication and other.....	2,066
Total inventory.....	□600,161

## 5. Accrued liabilities

Accrued liabilities at March 31, 2008 were as follows (in thousands):

	<b>2008</b>
Employee compensation, bonus, and benefits .....	□2,820
Reserve for workers compensation and automobile liability insurance .....	1,038
Interest .....	286
Other .....	1,053
Total .....	□5,197

## 6. Debt

On May 20, 2005, the Company entered into a □550 million revolving credit agreement (the "facility") with a maturity date of May 20, 2010. During April 2006, the line of credit was reduced by □25 million as provided for in the credit agreement. At March 31, 2008, the Company was utilizing □395.3 million of the facility, and had an outstanding letter of credit of □1.5 million leaving □128.2 million in unused line of credit with □116.8 million available to be borrowed by the Company according to the terms of the credit agreement. Borrowings under the facility bear interest at variable rates based on LIBOR (4.45□ at March 31, 2008). The Company's policy is to pay down the outstanding principal balance of the line of credit and to borrow additional amounts to finance working capital requirements. Accordingly, the Company classifies the debt as a current liability in the balance sheet. The credit agreement is collateralized by certain fixed assets, accounts receivable and inventories of the Company. Among other requirements, the Facility requires the Company to maintain certain financial ratios, minimum levels of net worth, and establish limitations on certain types of payments, including dividends, investments, and capital expenditures. The Company is in compliance with all covenants.

## 7. Commitments and contingencies

**Operating Leases** □ The Company utilizes buildings and equipment which are leased under operating lease agreements, extending through March 2013. The following is a schedule of the future minimum obligations under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2008 (in thousands):

<b>Years Ending March 31</b>	
2009 .....	□ 325
2010 .....	261
2011 .....	211
2012 .....	211
2013 .....	189
Thereafter.....	142
Total .....	□1,339

Rent expense under all operating leases was approximately □1.4 million for the year ended March 31, 2008. The initial term of the Loveland office lease is seven years with one five-year extension. There is also a separate lease for 2,254 square feet of adjoining office space that is currently being occupied by Five Star Cattle Systems, a MF subsidiary. The lease allows for 3□ annual escalations, and includes the tenant's pro rata share of operating expenses.

**Legal Matters** □ As of March 31, 2008 there were no pending legal matters against the Company, however, the Company is a party to a proceeding currently pending with the Colorado Ground Water Commission (CGWC) in which Pioneer Irrigation District and others have requested a modification of the boundaries of a designated ground water basin in which the Yuma feedyard of the Company is located. This case is scheduled for a three-week hearing in front of the GWC's hearing office beginning on June 2, 2008. If the petitioners fully prevail the Company would be required to supply water to the North Fork to replace the withdrawals of ground water from wells serving the Yuma feedyard, or cease withdrawals from those wells. Replacement water would have to be secured. It is not possible to estimate the amount of potential loss at this time.

**Loss on Involuntary Conversion of Assets** □ During February 2008, the Company wrote off a loader that was destroyed by fire at the Grant County Feedyard. An involuntary conversion loss of approximately \$109,000 was recognized.

During March 2007, the Company wrote off a retention pond after routine inspections revealed active seeps on three of the four embankments. A loss of approximately \$434,000 was recognized and the engineering firm and all parties relevant to the construction of the pond were notified that we intend to build a new pond and hold them responsible for the costs. On April 22, 2008, the Company filed a complaint in the United States District Court for the District of Kansas against KLA Environmental Services, Inc. and Stoppel Dirt, Inc. seeking damages.

## 8. Related party transactions

On May 20, 2005, the Company entered into the Conti Services Agreement whereby the Company would be provided certain services by ContiGroup Companies, Inc. for \$1 million annually. Expenses for the year ended March 31, 2008 were \$450,000. The Company also feeds cattle for CPS. At March 31, 2008 approximately 37,000 head were on feed for CPS. There was an outstanding receivable due the Company from CPS of \$2.9 million at March 31, 2008, and revenue recognized during the year ended March 31, 2008 was \$59.3 million. The Company permits employees and their relatives to enter into feeding agreements at the individual feedyards, with the consent of the feedyard General Managers and with Executive Management approval. For the year ended March 31, 2008 this activity totaled \$1.5 million.

## 9. Significant customers

Outside customers accounted for approximately 10% of the total cattle on feed at the Company's feedyards, at March 31, 2008. CPS was the largest single customer accounting for the majority of customer cattle on feed at March 31, 2008. Company cattle are committed under marketing agreements to Swift and Company, Cargill Meat Solutions Corporation, and National Beef. During the year ended March 31, 2008, approximately 54% of company cattle were sold to Swift, 14% to Cargill, and 32% to National Beef.

## 10. Employee benefit plans

**Defined Contribution Plans** □ Effective April 2006, the Company sponsored a defined contribution plan (401(k) Plan), administered by Vanguard. All employees may participate by contributing a portion of their annual earnings to the plan. The Company's contributions are based on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Total contributions were approximately \$571,000 for the year ended March 31, 2008.

**Deferred Compensation Plans** □ The Company granted certain key members of Five Rivers' management team participation in the Five Rivers Long-Term Incentive Plans, which covers the three years ending March 31, 2008, 2009 and 2010 (the 2008 Plan) and the three years ending March 31, 2007, 2008 and 2009 (the 2007 Plan). The performance measure for the plan is return on net assets (RONA), with a hurdle rate of 9% RONA and a target rate of 12.0% RONA. There is no cap for the bonus pool, but vesting occurs at a rate of 33.3% at the end of each fiscal year. The targets were not met for the 2007 plan, but the 2008 target was met, and there is an accrual of approximately \$170,000 in long-term liabilities for this plan.

## 11. Derivative instruments and hedging activity

The Company is exposed to market risk, such as changes in commodity prices for its main raw materials □ feeder cattle and corn, and its finished product □ live cattle. The Company's exposure to commodity price risk relates to raw material and finished product price fluctuations caused by supply conditions, weather, economic conditions, and other factors. To manage volatility associated with these exposures, the Company may enter into derivative transactions pursuant to established Company policies. Generally, the Company utilizes commodity futures and option contracts to reduce the volatility of commodity input prices on corn and feeder cattle and commodity prices on live cattle. Options are used to economically hedge a portion of the market risk, even though the Company has elected not to designate these positions as accounting hedges. The Company enters into futures and options transactions with established brokers.

The Company considers its use of derivative instruments to be an economic hedge against changing prices. At March 31, 2008 all open derivative contracts were recorded at fair value in accordance with SFAS No. 133. These contracts are recorded within current assets when the unrealized value is a gain and within current liabilities when the unrealized value is a loss. The Company designates contracts for the future purchase or sale of certain commodities as normal purchase normal sales and thus these contracts are not marked-to-market. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. The Company links all hedges to forecasted transactions and assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items, both at the inception of the hedge and on an ongoing basis.

**Trading Activities** □ During 2008 the Company had the following derivative activities, which while economic hedges, were not accounted for as hedges and whose gains or losses are reflected in □Other revenues□on the Statement of Operations:

- *Corn Purchases* □ As of March 31, 2008 the Company had open derivative contracts on 3.605 million bushels of corn to hedge or unwind pricing on future purchases at various feedyards. At March 31, 2008 these positions had a net unrealized loss of approximately □195,000. During the year ended March 31, 2008, the Company recorded □1.6 million in realized gains on these positions.
- *Feeder Cattle Purchases* □ As of March 31, 2008 the Company had open derivative contracts on 8.5 million pounds of feeder cattle to hedge purchases at various feedyards. At March 31, 2008 these positions carried an unrealized net gain of □168,000. During the year ended March 31, 2008 realized losses were approximately □295,000.
- *Live Cattle Sales* □ As of March 31, 2008 the Company had open derivative contracts on 230.92 million pounds of live cattle to hedge future sales at various feedyards. At March 31, 2008 these positions had net unrealized losses of approximately □4.8 million. During the year ended March 31, 2008, the Company recorded □14.9 million in realized gains on these positions.
- *Natural Gas Purchases* □ During the year ended March 31, 2008 there were no hedging activities relating to natural gas.
- *Soybean Meal Purchases* □ As of March 31, 2008 the Company had no open derivative contracts on soybean meal. Realized gains and losses during 2008 were immaterial.

**Hedging Activities** □ During the year ended March 31, 2008 the Company had the following derivatives which were appropriately designated and accounted for as hedges:

- *Feeder Cattle Purchases* □ As of March 31, 2008, the Company had no open derivative contracts of feeder cattle. During the year ended March 31, 2008, the Company realized □1.9 million in losses on feeder cattle hedges. Of this, □2.0 million of losses have been recorded in cost of sales, and approximately □95,000 of gains have been recorded in other revenues due to ineffectiveness on these hedges.
- *Live Cattle Sales* □ As of March 31, 2008, the Company had open derivative contracts on 542.5 million pounds of live cattle to hedge future sales at various feedyards which are being accounted for as a cash flow hedge. These positions had an unrealized gain of □27.2 million which was recorded in AOCI. During the year ended March 31, 2008, the Company realized □37.4 million in gains on live cattle hedges. Of this, □1.9 million of gains are deferred in AOCI at year end, □29.1 million of gains have been recorded in cost of sales, and □6.4 million of gains have been recorded in other revenues due to ineffectiveness on these hedges.

At March 31, 2008 there was □29.1 million recorded within accumulated other comprehensive income for deferred hedging gains to be recognized in fiscal year 2009. These gains will be recorded as either effective or ineffective hedges as live cattle are marketed. The maximum length of time that the Company hedges its exposure to the variability in future cash flows is approximately 12 months.



## 12. Fair value of financial instruments

The fair value of the Company's debt approximates market value as its line of credit bears interest at floating market rates based on LIBOR. Open derivative contracts are marked to market on a daily basis and are recorded in the balance sheet. For cash and cash equivalents, trade receivables, and accounts payable, the carrying amount is a reasonable estimate of fair value due to their term to maturity.

## 13. Gilcrest fire

On February 9, 2006, a fire occurred in the generator room which connects to the Motor Control Center for the Gilcrest Feedlot feed mill, which the Company has accounted for as an involuntary conversion. At March 31, 2007, approximately \$1.2 million had been spent to replace and repair the capital assets destroyed by the fire, and the Company had received \$500,000 in insurance proceeds. It is expected that the cost of all property damage will be recovered, less the \$100,000 deductible. During 2007, an additional \$1.0 million was spent for cleanup and to return the mill to operating capacity, including the costs of generator rental, fuel, installing new wiring, and hauling feed from the Kuner Feedlot. During 2008 the Company received a final settlement of \$2.0 million in insurance proceeds.

□□□□□

**Smithfield Beef Group, Inc.**  
**Condensed consolidated balance sheet**  
(Unaudited)  
**July 27, 2008**  
(dollars in thousands)

<b>Assets</b>	
Current assets:	
Cash.....	□ 99
Accounts receivable, less allowances of □2,139 .....	117,836
Inventories .....	202,412
Deferred income taxes.....	6,233
Prepaid expenses and other current assets .....	10,079
<b>Total current assets.....</b>	<b>336,659</b>
Property, plant, and equipment, net.....	142,889
Investment in Five Rivers Ranch Cattle Feeding LLC .....	155,469
Investment in other joint ventures .....	1,186
Goodwill.....	115,921
Intangible assets .....	4,227
Other assets .....	5,948
	<u>□762,299</u>
<b>Liabilities and stockholder's equity</b>	
Current liabilities:	
Accounts payable.....	□63,172
Accrued payroll and benefits .....	20,390
Other accrued liabilities .....	41,986
Current portion of long-term debt due third parties.....	1,009
<b>Total current liabilities .....</b>	<b>126,557</b>
Long-term debt due Smithfield Foods, Inc. ....	456,649
Long-term debt due third parties .....	734
Deferred income taxes .....	20,359
Other long-term liabilities .....	21,198
Commitments and contingencies	
Stockholder's equity:	
Class A Common stock, □01 par value, 15,000 shares authorized, 1,000 shares issued and outstanding ....	□
Additional paid-in capital.....	242,640
Accumulated deficit.....	(103,800)
Accumulated other comprehensive loss .....	(2,038)
<b>Total stockholder's equity.....</b>	<b>136,802</b>
	<u>□762,299</u>

See accompanying notes.

**Smithfield Beef Group, Inc.**  
**Condensed consolidated statements of operations**  
(unaudited)  
**July 27, 2008**  
(dollars in thousands)

	Quarter ended	
	July 27, 2008	July 29, 2007
Net sales .....	<b>\$819,717</b>	□754,733
Cost of sales.....	<b>763,734</b>	735,259
Gross profit.....	<b>55,983</b>	19,474
Operating costs and expenses:		
Selling, general and administrative expenses .....	<b>20,165</b>	15,387
Corporate service fees from Smithfield Foods, Inc.....	<b>4,531</b>	3,111
Royalty fees to Smithfield Foods, Inc. ....	<b>1,639</b>	1,269
Total operating cost and expenses .....	<b>26,335</b>	19,767
Income (loss) from operations.....	<b>29,648</b>	(293)
Other income (expense):		
Interest income .....	<b>89</b>	206
Interest expense:		
Smithfield Foods, Inc.....	<b>(9,784)</b>	(10,408)
Third parties.....	<b>(88)</b>	(206)
Equity in income (loss) of Five Rivers Ranch Cattle Feeding LLC.....	<b>(2,417)</b>	5,031
Equity in income of other joint ventures.....	<b>130</b>	396
Income (loss) before income taxes .....	<b>17,578</b>	(5,274)
Provision (benefit) for income taxes.....	<b>6,340</b>	(1,970)
Net income (loss) .....	<b>\$11,238</b>	□(3,304)

See accompanying notes.

**Smithfield Beef Group, Inc.**  
**Condensed consolidated statements of cash flows**  
(unaudited)  
**July 27, 2008**  
(dollars in thousands)

	Quarter ended	
	July 27, 2008	July 29, 2007
<b>Operating activities</b>		
Net income (loss) .....	\$ 11,238	□ (3,304)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	4,578	4,536
Gain on sale of equipment .....	—	(4)
Equity in (income) loss of Five Rivers Ranch Cattle Feeding, LLC .....	2,417	(5,031)
Equity in income of other joint ventures .....	(130)	(396)
Changes in operating assets and liabilities:		
Accounts receivable .....	(7,082)	(11,773)
Inventories .....	32,523	49,113
Prepaid expenses and other current assets .....	235	1,650
Accounts payable .....	(6,879)	(8,063)
Accrued liabilities .....	14,073	10,881
Other noncurrent assets and liabilities .....	(203)	40
Cash provided by operating activities .....	<b>50,770</b>	37,649
<b>Investing activities</b>		
Additions to property, plant and equipment .....	(3,601)	(2,992)
Proceeds from sale of property, plant and equipment .....	—	90
Other .....	206	13
Cash used in investing activities .....	<b>(3,395)</b>	(2,889)
<b>Financing activities</b>		
Net payments under debt agreement with Smithfield Foods, Inc. ....	(47,092)	(36,231)
Payments on debt due third parties .....	(240)	(215)
Cash used in financing activities .....	<b>(47,332)</b>	(36,446)
Increase (decrease) in cash .....	43	(1,686)
Cash at beginning of period .....	56	5,000
Cash at end of period .....	<b>\$ 99</b>	□ 3,314
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest to third parties .....	<b>\$ 46</b>	□ 70

See accompanying notes.

# Smithfield Beef Group, Inc.

## Notes to condensed consolidated financial statements

(Unaudited)

### July 27, 2008

#### 1. Description of the business

##### Basis of presentation

Smithfield Beef Group, Inc. (the Company or Smithfield Beef Group) now known as JBS Packerland, Inc., processes, prepares, packages and delivers fresh, further-processed and value-added beef products for sale to customers in the United States and international markets from four beef processing facilities. Smithfield Beef Group sells beef products to customers in the foodservice, international, further processor and retail distribution channels. Smithfield Beef Group also produces and sells by-products that are derived from its beef processing operations and variety meats to customers in various industries.

##### Sale of the company

On October 23, 2008, Smithfield Foods, Inc., (the owner of Smithfield Beef Group prior to this date) completed the sale of Smithfield Beef Group, to a wholly-owned subsidiary of JBS S.A., a company organized and existing under the laws of Brazil, for \$565 million, net of postclosing adjustments. The sale included 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50:50 joint venture with Continental Grain Company (CGC).

The unaudited condensed consolidated financial statements of the Company included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulation, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results of operations for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements of the Company, including the notes thereto for the year ended April 27, 2008, included elsewhere in this filing. The Company's financial information included herein is not necessarily indicative of the financial position, results of operations and cash flows of the Company that may be expected in the future.

##### Principles of consolidation

The condensed consolidated financial statements include all wholly-owned subsidiaries. The Company's investments in Five Rivers, Five Star Cattle Solutions, LLC and Mountain View Rendering Co. LLC are accounted for under the equity method. The Company has a 50% ownership in each of these entities. All intercompany transactions and balances have been eliminated.

The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest April 30th. The quarters ended July 27, 2008 and July 29, 2007, each consisted of 13 weeks.

#### 2. Other comprehensive loss

Other comprehensive loss includes the net income or loss of the Company plus the Company's proportionate share of the fair value of derivative financial instruments entered into by Five Rivers, which are accounted for under hedge accounting. Other comprehensive income (loss) totaled \$11.6 million and \$(10.6) million for the quarters ended at July 27, 2008 and July 29, 2007, respectively.

### 3. Inventories

The components of inventories at July 27, 2008, net of reserves of \$1.4 million, are as follows (in thousands):

Live cattle .....	\$106,751
Product inventories:	
Fresh and packaged meats .....	62,935
Carcass inventory .....	14,679
Manufacturing supplies .....	14,728
Other .....	3,319
	\$202,412

The sale of the Smithfield Beef Group as discussed in Note 1, excluded substantially all live cattle inventories held by the Company and Five Rivers as of the transaction date. Live cattle owned by Five Rivers on the transaction date were transferred to a new 50:50 joint venture between Smithfield Foods, Inc. and CGC, while live cattle owned by Smithfield Beef Group on the transaction date were transferred to a subsidiary of Smithfield Foods, Inc. The excluded live cattle will be raised by JBS Packerland, Inc. for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods, Inc./CGC joint venture or to Smithfield Foods, Inc., as appropriate. The live cattle inventories are expected to be sold within six months after the transaction date, with substantially all live cattle sold within 12 months after the transaction date.

### 4. Property, plant and equipment, net

Property, plant and equipment, net consist of the following at July 27, 2008 (in thousands):

Land .....	\$ 13,946
Buildings and improvements .....	72,725
Machinery and equipment .....	146,400
Automobiles and trucks .....	5,784
Furniture and fixtures .....	3,581
Computer hardware .....	2,835
Leasehold improvements .....	176
Construction in progress .....	15,796
	261,243
Accumulated depreciation .....	(118,354)
	\$ 142,889

The sale of the Smithfield Beef Group, as discussed in Note 1, excluded certain land and land improvements that totaled \$9.6 million at July 27, 2008.

### 5. Investment in Five Rivers

In fiscal 2006, Smithfield Beef Group and CGC formed Five Rivers, a 50:50 joint venture. Five Rivers is a stand-alone operating company, independent from the Company and CGC, currently headquartered in Greeley, Colorado, with a total of ten feedlots located in Colorado, Idaho, Kansas, Oklahoma and Texas. Five Rivers sells cattle to multiple U.S. beef packing firms using a variety of marketing methods. Five Rivers has a fiscal year ended March 31 and fiscal quarters ended June 30, September 30, and December 31.

Five Rivers meets the definition of a significant subsidiary (per Regulation S-X) with respect to the Company. Condensed statements of operations for Five Rivers are presented below:

	Quarter Ended	
	June 30, 2008	June 30, 2007
Net sales .....	\$363,688	\$304,100
Cost and expenses .....	380,263	288,339
Operating income (loss) .....	(16,575)	15,761
Net income (loss) .....	(20,933)	9,479

## 6. Other assets

Other assets consists of the following at July 27, 2008 (in thousands):

Other assets:	
Aircraft.....	□ 2,032
Deposit.....	725
Tax benefit related to uncertain tax positions.....	2,156
Computer software.....	285
Other noncurrent assets.....	750
	<hr/>
	□ 5,948

## 7. Long-term debt

Long-term debt consists of the following at July 27, 2008 (in thousands):

Long-term debt due Smithfield Foods Inc.:	
Debt due Smithfield Foods, Inc.....	□ 257,224
Term notes due SFFC, Inc. ....	199,425
	<hr/>
	□ 456,649
Other long-term debt due third parties:	
Note payable.....	□ 751
Other.....	992
	<hr/>
	1,743
Less current portion.....	1,009
	<hr/>
	□ 734

The Company had a lending arrangement with Smithfield Foods, Inc. under which Smithfield Foods, Inc. finances the working capital needs of the Company. Amounts outstanding under the facility bore interest at rates ranging between 4.2% and 7% as of July 27, 2008. The lending arrangement did not have a stated maturity date nor did it contain any financial covenants. The debt with Smithfield Foods, Inc. has been classified as long term based on the intent of Smithfield Foods, Inc. for these amounts not to be repaid in the next fiscal year.

On January 1, 2007, the Company entered into a series of term notes with SFFC, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) totaling \$199.4 million. The term notes bear interest at 7.75% and are due December 31, 2016. The term notes do not contain any financial covenants.

In connection with the purchase of Murco Inc., now known as JBS Plainwell, Inc., the Company issued a note payable (Note) to the former owner for \$13.3 million. Principal and interest payments under the Note are due weekly, decreasing from \$30,000 to \$20,000 over the life of the Note. As the Note does not bear interest, the Company discounted the estimated future cash flows under the Note and adjusted the carrying value of the Note to \$8.2 million at the purchase date, which approximated the fair value of the Note. The effective interest rate on the Note is 10% and the Note matures May 12, 2009.

## 8. Income taxes

The provision (benefit) for income taxes for the fiscal quarters ended July 27, 2008 and July 29, 2007, are based on an estimated income tax rate for the respective full fiscal year. The estimated annual effective income tax rate is determined excluding the effect of significant unusual items or items that are reported net of their related tax effects. The tax effect of significant unusual items is reflected in the period in which they occur.

A reconciliation of the beginning and ending liability for uncertain tax positions is as follows (in thousands):

Balance as of April 28, 2008.....	□ 4,226
Additions for tax positions taken in prior years.....	124
	<hr/>
Balance as of July 27, 2008.....	□ 4,350

The Company operates in multiple taxing jurisdictions within the United States, and is subject to audits from various tax authorities. As of July 27, 2008, the liability for uncertain tax positions included \$1.5 million of accrued interest. The Company recognized \$49,000 and \$66,000 of interest expense in tax expense during the quarters ended July 27, 2008 and July 29, 2007, respectively. As of July 27, 2008, the liability for uncertain tax positions included \$3.7 million that, if recognized, would impact the effective tax rate.

## 9. Other accrued liabilities

Other accrued liabilities consist of the following at July 27, 2008 (in thousands):

Feed .....	\$11,520
Derivative financial instruments .....	10,829
Self-insurance reserves .....	3,000
Utilities .....	2,739
Freight .....	2,434
Customer programs .....	1,220
Litigation-related matters .....	1,535
Property taxes .....	1,123
Legal and professional fees .....	623
Other .....	6,963
	\$41,986

## 10. Related-party transactions

The Company has a trademark and license agreement with SF Investments, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) for the right to use certain trademarks of Smithfield Foods, Inc. in connection with the sale of certain food products. The Company made royalty payments related to this agreement of \$1.6 million and \$1.3 million during the quarters ended July 27, 2008 and July 29, 2007, respectively.

Through an informal agreement with its parent, Smithfield Foods, Inc., the Company was provided certain administrative services by Smithfield Foods, Inc. Under this arrangement, the Company was charged \$4.5 million and \$3.1 million during the quarters ended July 27, 2008 and July 29, 2007, respectively.

## 11. Regulations and litigation

The Company is subject to various laws and regulations administered by federal, state and other government entities, including the Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration and similar agencies in foreign countries. The Company believes that it is in compliance with these laws and regulations in all material respects and that continued compliance with these laws and regulations will not have a material adverse effect on its financial position or results of operations or cash flows.

In February 2003, the EPA promulgated regulations under the Clean Water Act governing confined animal feeding operations (CAFOs). Among other things, these regulations impose obligations on CAFOs to manage animal waste in ways intended to reduce the impact on water quality. These new regulations were challenged in federal court by both industry and environmental groups. Although a 2005 decision by the court invalidated several provisions of the regulations, they remain largely intact.

From time to time and in the ordinary course of its business, the Company is named as a defendant in legal proceedings related to various issues, including worker's compensation claims, tort claims and contractual disputes. While the resolution of such matters may have an impact on the Company's financial results for the period in which they are resolved, the Company believes that the ultimate disposition of these matters will not, individually or in the aggregate, have a material adverse effect upon its business or consolidated financial statements.



## 12. Fair value measurements

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, on April 28, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

- Level 1 □ Quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.
- Level 2 □ Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 □ Unobservable for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

The Company's derivative financial instruments as of July 27, 2008, were measured at fair value based on Level 1 inputs.

# Five Rivers Ranch Cattle Feeding LLC

## Balance sheets

(in thousands)

	(Unaudited) September 30, 2008	March 31, 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash.....	4	3
Accounts receivable.....	13,612	16,819
Inventories .....	631,885	600,161
Prepaid expenses .....	2,986	2,470
Derivative financial instruments .....	13,951	27,792
<b>Total current assets.....</b>	<b>662,438</b>	<b>647,245</b>
Property, plant and equipment, net.....	88,875	88,339
Water rights .....	12,144	12,144
Deferred financing costs, net .....	3,359	2,291
Other investments .....	1,695	1,162
<b>Total assets.....</b>	<b>768,511</b>	<b>751,181</b>
<b>Liabilities and Members' Equity</b>		
<b>Current liabilities</b>		
Note payable.....	444,100	395,300
Borrowings on margin accounts .....	7,154	10,012
Bank overdraft.....	18,935	11,171
Accounts payable.....	20,791	9,156
Accrued expenses .....	4,502	5,197
Derivative financial instruments .....	3,310	5,406
<b>Total current liabilities .....</b>	<b>498,792</b>	<b>436,242</b>
Deferred compensation.....	170	170
<b>Total liabilities.....</b>	<b>498,962</b>	<b>436,412</b>
<b>Commitments</b>		
<b>Members' equity</b>		
Members' equity.....	274,416	274,416
Retained earnings (accumulated deficit) .....	(21,700)	11,249
Accumulated other comprehensive income.....	16,833	29,104
<b>Total members' equity.....</b>	<b>269,549</b>	<b>314,769</b>
<b>Total liabilities and members' equity.....</b>	<b>768,511</b>	<b>751,181</b>

The accompanying notes are an integral part of these financial statements.

# Five Rivers Ranch Cattle Feeding LLC

## Statements of operations

(in thousands)

	(Unaudited)	
	Six Months Ended September 30,	
	2008	2007
<b>Revenues</b> .....	□ 850,947	□ 769,843
<b>Cost of revenues</b> .....	864,019	718,588
Gross profit (loss) .....	(13,072)	51,255
<b>Operating expenses</b>		
Selling, general and administrative expenses .....	6,762	7,289
Depreciation and amortization expense .....	4,607	4,292
Total operating expenses .....	11,369	11,581
Income (loss) from operations .....	(24,441)	39,674
<b>Other income (expenses)</b>		
Interest income .....	161	479
Earnings from unconsolidated affiliate .....	65	142
Other income .....	117	1,916
Interest expense .....	(8,851)	(15,428)
Total other expense, net .....	(8,508)	(12,891)
Net income (loss) .....	□ (32,949)	□ 26,783

*The accompanying notes are an integral part of these financial statements.*

**Five Rivers Ranch Cattle Feeding LLC**  
**Statements of members' equity**  
**Six months ended September 30, 2008 and 2007**  
**(Unaudited)**  
(in thousands)

	Members' Equity	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
<b>Six months ended September 30, 2007</b>				
Balance, March 31, 2007 .....	□274,416	□(26,208)	□(8,634)	□239,574
Comprehensive income:				
Net income .....	□	26,783	□	26,783
Net gain on cash flow hedges .....	□	□	(9,870)	(9,870)
Reclassification adjustment for losses included in net income .....	□	□	8,634	8,634
Comprehensive income .....				25,547
Balance, September 30, 2007 .....	□274,416	□575	□(9,870)	□265,121
<b>Six months ended September 30, 2008</b>				
Balance, March 31, 2008 .....	□274,416	□11,249	□29,104	□314,769
Comprehensive loss:				
Net loss .....	□	(32,949)	□	(32,949)
Net gain on cash flow hedges .....	□	□	16,833	16,833
Reclassification adjustment for gains included in net loss .....	□	□	(29,104)	(29,104)
Comprehensive loss .....				(45,220)
Balance, September 30, 2008 .....	□274,416	□(21,700)	□16,833	□269,549

*The accompanying notes are an integral part of these financial statements.*

# Five Rivers Ranch Cattle Feeding LLC

## Statements of cash flows

(in thousands)

	(Unaudited)	
	Six Months Ended September 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income (loss).....	□ (32,949) □	26,783
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization.....	4,607	4,292
Amortization of deferred financing costs.....	455	455
Equity in earnings of unconsolidated affiliate.....	(65)	(142)
Change in derivative fair value.....	(526)	(10,122)
Change in operating assets and liabilities:		
Accounts receivable.....	3,207	(3,847)
Inventories.....	(31,724)	(140,759)
Prepaid expenses.....	(450)	(1,194)
Other assets.....	□	250
Accounts payable.....	10,939	20,343
Net cash used in operating activities.....	(46,506)	(103,941)
<b>Cash flows from investing activity:</b>		
Purchase of property, plant and equipment.....	(5,199)	(7,561)
Investment in Southfork Solutions, Inc.....	(100)	(120)
Net cash used in investing activities.....	(5,299)	(7,681)
<b>Cash flows from financing activities:</b>		
Capitalized debt fees.....	(1,903)	□
Bank overdraft.....	7,764	12,018
Proceeds from note payable, net.....	48,800	99,600
Borrowings on margin account, net.....	(2,858)	□
Net cash provided by investing activities.....	51,803	111,618
Decrease in cash.....	(2)	(4)
Cash at beginning of period.....	6	6
Cash at end of period.....	□ 4 □	2
Cash paid for interest.....	□ 8,429 □	11,086

The accompanying notes are an integral part of these financial statements.

# Five Rivers Ranch Cattle Feeding LLC

## Unaudited notes to financial statements

### 1. Organization and nature of operation

Five Rivers Ranch Cattle Feeding LLC (the Company) is a limited liability company organized on May 20, 2005, in the state of Delaware. The Company is a 50:50 joint venture between ContiBeef LLC (ContiBeef) and MF Cattle Feeding, Inc. (MF) (the Members). The Members exercise joint control over the Company. ContiBeef is a wholly-owned subsidiary of Continental Grain Company, and MF is a wholly-owned subsidiary of Cattle Production Systems, Inc. whose parent company is Smithfield Beef Group, Inc. (Smithfield Beef), which is a wholly-owned subsidiary of Smithfield Foods, Inc. On May 20, 2005, the operating assets and certain liabilities of ContiBeef and MF were transferred to the Company at net book value in exchange for equity interests in the Company.

The Company was engaged in raising feeder cattle for itself and for outside customers, and then ultimately selling the cattle to meat packing companies (packers). Feedlot operations are located in Idaho, Texas, Colorado, Kansas, and Oklahoma.

### 2. Summary of significant accounting policies

*Interim Periods and Basis of Presentation* The Company's fiscal year-end is on March 31<sup>st</sup>. The information included in these financial statements reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations for the interim periods presented. Balance sheet amounts are as of September 30, 2008 and March 31, 2008 and operating result amounts are for the six months ended September 30, 2008 and 2007, and include all normal and recurring adjustments that we considered necessary for the fair summarized presentation of our financial position and operating results. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not necessarily be indicative of the operating results for the full fiscal year.

*Accounts Receivable* Accounts receivable are primarily from feedlot customers for their share of feed, medicine, and other supplies for the care of those cattle and billed to the feedlot customer every month. Based on past history and the ability to collect final feed bills from the packers upon shipment of the finished cattle, the Company has no history of bad debt. Accordingly, at September 30, 2008 and March 31, 2008, an allowance for doubtful accounts was not required.

*Inventories* Inventories of livestock, feed, silage, processing supplies, and medication are stated at the lower of cost (first-in, first-out or FIFO) or market. Farm inventory is stated a lower of cost (FIFO) or market and includes seeds and other costs related to the production of the next season's crops. Parts, medication and other inventories are stated at average cost.

*Property, Plant and Equipment* Property, plant and equipment was stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 25 years for farm buildings, 10 to 30 years for land improvements and buildings, and 2 to 12 years for machinery, equipment, furniture, and purchased software. Maintenance and repairs are expensed as incurred, while betterments and expenditures that materially improve or extend the life of an asset are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the respective asset account and any resulting gain or loss is reflected in the statement of operations in the period realized. The costs of developing internal-use software are capitalized and amortized when placed in service over the expected useful life of the software. Major renewals and improvements that extend the useful life of the asset are capitalized while maintenance and repairs are expensed as incurred. The Company has historically and currently accounts for planned major maintenance activities as they are incurred in accordance with the guidance in the Financial Accounting Standards Board (FASB) FASB Staff Position (FSP) AUG Air-1: "Accounting for Planned Major Maintenance Activities." The applicable interest charges incurred during the construction of assets if material are capitalized. In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When future undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value, the Company compares the asset's estimated future cash flows, discounted to present value using a risk-adjusted discount rate, to its current carrying value and records a provision for impairment as appropriate.

Depreciation and amortization expense for the six months ended September 30, 2008 and September 30, 2007 totaled \$4.6 million and \$4.3 million, respectively.

*Deferred Financing Costs*— Debt financing costs totaling \$4.5 million were capitalized and are being amortized over the terms of the related loan agreements using the straight-line method. Accumulated amortization of the debt financing costs was \$3.1 million at September 30, 2008 and \$2.7 million at March 31, 2008, respectively.

*Bank Overdraft*— The majority of the Company's bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are included in the change in the related balance and are reflected as a financing activity on the statement of cash flows.

*Self-Insurance Accruals*— The Company is self-insured for employee medical and dental benefits and purchases insurance policies with deductibles for certain losses relating to worker's compensation and general liability. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of certain claims. Self-insured losses are accrued based upon periodic third party actuarial reports of the aggregate uninsured claims incurred using actuarial assumptions accepted in the insurance industry and the Company's historical experience rates. The Company has recorded a prepaid asset with an offsetting liability to reflect the amounts estimated as due for claims incurred and accrued but not yet paid to the claimant by the third party insurance company in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

*Derivatives and Hedging Activities*— The Company accounts for its derivatives and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities," (SFAS No. 133), and its related amendment, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The Company uses derivatives (e.g., futures and options) for the purpose of mitigating exposure to changes in commodity prices. The fair value of each derivative is recognized in the balance sheet within current assets or current liabilities. Changes in the fair value of derivatives are recognized immediately in the statements of operations.

*Income Taxes*— The Company is treated as a flow-through entity for income tax purposes and, therefore, the Company's taxable income is included in the Members' respective consolidated U.S. federal income tax returns. The Company is not allocated any current or deferred U.S. federal income expense (benefit) arising from the Company's operations included in the Members' results.

*Revenue Recognition*— The Company sells live cattle to packers located primarily in the Plains states. Revenue is generally recognized when live cattle are shipped to customers, based on terms as set forth by The Packers and Stockyards Act of 1921. The Company records transactions based on lot by lot accounting, generally recognizing revenue as cattle are shipped or on delivery depending on the terms of the sale, and will adjust revenues to reflect the results of the grading process as reported to the Company by the packer. The risk of loss transfers to the packer upon shipment, unless the Company has hired the transporter for shipment, in which case risk of loss transfers at delivery. Hotel revenue charged to customers for cattle feeding and care is recognized on a daily basis and is recorded in feedlot sales in the statements of operations. Animal feed supplement sold to third parties is recognized when the product is delivered and is recorded in feedlot sales in the statement of operations.

*Advertising Costs*— Advertising costs are expensed as incurred. Advertising costs were \$67 thousand and \$99 thousand for the six months ended September 30, 2008 and 2007, respectively.

*Use of Estimates*— The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires the Company to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, the Company has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by the Company could have significant impact on the Company's financial results. Actual results could differ from those estimates. Significant estimates with regard to these financial statements include the estimate of asset useful lives and insurance accruals.

*Concentration of Business and Credit Risk*— Substantially all of the Company's business is on a credit basis. The Company extends credit to cattle feeding customers based on the fact that cattle are held in our feedyards, shipped directly to packers, and the packers will deduct final feedbills from any proceeds due to the customer. The demand for the Company's product and service is dependent upon the general economy, cost of feeder cattle, live cattle, corn and other feedstocks, weather, and other factors that may affect the pricing of food commodities.

*Fair Value of Financial Instruments* □ The carrying amounts of the Company's financial instruments, including cash, trade receivables, and payables, approximate their fair values due to the short-term nature of the instruments. The fair value of the Company's debt approximates market value as its line of credit bears interest at floating market rates based on LIBOR. Open derivative contracts are traded on the Chicago Mercantile Exchange and are marked to market on a daily basis and are recorded in the balance sheet.

*Recent Accounting Pronouncements* □ In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 provides for enhanced disclosures about the use of derivatives and their impact on a Company's financial position and results of operations. This statement is effective for the Company's fiscal year 2009. The Company does not expect the adoption of SFAS No. 161 to have a material impact on its financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations." SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any non-controlling interest in the acquiree at the acquisition date, measured at fair value at that date. This includes the measurement of the acquirer's shares issued as consideration in a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gains and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. One significant change in this statement is the requirement to expense direct costs of the transaction, which under existing standards are included in the purchase price of the acquired company. This statement also established disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS No. 141(R) is effective for business combinations consummated after December 31, 2008. The statement also requires that any adjustments to uncertain tax positions from business combinations consummated prior to December 31, 2008 no longer be recorded as an adjustment to goodwill, but be reported in income.

### 3. Accounts receivable

Accounts receivable at September 30, 2008 and March 31, 2008, were as follows (in thousands):

	September 30, 2008	March 31, 2008
Trade .....	□13,547	□16,736
Employee advances .....	65	83
Total accounts receivables.....	□13,612	□16,819

### 4. Inventories

Inventory balances at September 30, 2008 and March 31, 2008, were as follows (in thousands):

	September 30, 2008	March 31, 2008
Livestock .....	□591,972	□574,082
Silage .....	20,415	13,657
Planting seeds and supplies .....	444	365
Parts .....	740	718
Feed .....	17,032	10,356
Medication and other.....	1,282	983
Total inventory.....	□631,885	□600,161



## 5. Property, plant and equipment

Property, plant and equipment at September 30, 2008 and March 31, 2008 were as follows (in thousands):

	September 30, 2008	March 31, 2008
Land and improvements.....	□66,995	□65,580
Buildings.....	9,045	8,898
Machinery, equipment and fixtures.....	35,878	33,348
Capitalized software.....	636	636
Construction-in-progress.....	2,888	2,009
	115,442	110,471
Accumulated depreciation.....	(26,567)	(22,132)
Total property and equipment, net.....	□88,875	□88,339

## 6. Water rights

The Company has recorded intangible assets in the form of water rights with indefinite lives at the Kuner and Gilcrest feedlots. This intangible asset is recorded at its carryover basis of □12.1 million. The Company's annual impairment testing date coincides with its fiscal year-end. If an assessment indicates impairment, the impaired asset is written down to its fair value based on the best information available in accordance with SFAS 142, *Goodwill and Other Intangible Assets*. There were no impairments recorded as of September 30, 2008 and March 31, 2008.

## 7. Other investments

Investments at September 30, 2008 and March 31, 2008 are as follows (in thousands):

	September 30, 2008	March 31, 2008
50□ interest□ Northern Colorado Feed, LLC.....	□1,085	□1,033
500,000 common shares□ Southfork Solutions, Inc.....	600	500
Membership.....	10	10
Total other investments.....	□1,695	□1,543

*Northern Colorado Feed, LLC*□ The Company owns a 50□ interest in Northern Colorado Feed, LLC, which is an unconsolidated affiliate accounted for under the equity method. Investments in entities in which we lack control but have the ability to exercise significant influence over operating and financial policies are accounted for on the equity method. Under the equity method, the investment, originally recorded at cost, (fair value at date of acquisition) is adjusted to recognize our share of the net earnings or losses of the affiliate as they occur. The Company's share of earnings in the investment for the six months ended September 30, 2008 and 2007 totaled □67 thousand and □142 thousand, respectively.

*Southfork Solutions, Inc.*□ The Company considers their investment in Southfork Solutions available-for-sale as defined in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Accordingly, this investment is considered an available for sale security recorded at fair value. Fair value was estimated using valuation methodologies based on available and observable market information. Such valuation methodologies include reviewing the value ascribed to the most recent financing proposal by Southfork Solutions and reviewing their underlying financial performance. Southfork Solutions is a privately held company that is developing technology for animal identification and tracking purposes.

*Membership*□ The Company has a membership with Feeders□Advantage LLC, a Idaho limited liability corporation which is 50□ owned by MWI Veterinary Supply Co., a wholly owned subsidiary of MWI Veterinary Supply, Inc. The remaining 50□ is owned by various members, each paying □10 thousand for membership. As a requirement of membership, each member is required to purchase all of its veterinary supplies from MWI Veterinary Supply.

## 8. Accrued liabilities

Accrued liabilities at September 30, 2008 and March 31, 2008, were as follows (in thousands):

	September 30, 2008	March 31, 2008
Employee compensation, bonus and benefits .....	□1,509	□2,820
Reserve for workers compensation and automobile liability insurance .....	1,441	1,038
Interest .....	□	286
Other .....	1,552	1,053
Total accrued liabilities .....	□4,502	□5,197

## 9. Note payable

The Company entered into a □550 million revolving credit agreement (the "Facility") with a maturity date of May 20, 2010. During April 2006, the line of credit was reduced by □25 million as provided for in the credit agreement. At September 30, 2008, the Company was utilizing □444.1 million of the Facility, and had an outstanding letter of credit of □1.5 million leaving □79.4 million in unused line of credit with □31.1 million available to be borrowed by the Company according to the terms of the credit agreement. At March 31, 2008, the Company was utilizing □395.3 million of the Facility, and had an outstanding letter of credit of approximately □1.5 million leaving □128.24 million in unused line of credit with □116.8 million available to be borrowed by the Company according to the terms of the credit agreement. Borrowings under the Facility bear interest at variable rates based on LIBOR. The Company's policy is to pay down the outstanding principal balance of the line of credit and to borrow additional amounts to finance working capital requirements. Accordingly, the Company classifies the debt as a current liability in the balance sheet. The credit agreement is collateralized by certain fixed assets, accounts receivable and inventories of the Company. Among other requirements, the Facility requires the Company to maintain certain financial ratios, minimum levels of net worth, and establish limitations on certain types of payments, including dividends, investments, and capital expenditures. The Company is in compliance with all covenants.

## 10. Commitments

The Company utilizes in its operations buildings and equipment which are leased under operating lease agreements, extending through March 2013. The following is a schedule of the future minimum obligations under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year at September 30, 2008 (in thousands):

Periods ending September 30	Amount
2008 .....	□329
2009 .....	218
2010 .....	202
2011 .....	206
2012 .....	211
Thereafter .....	165
Total .....	□1,331

Rent expense under all operating leases was approximately □7 million and □7 million for the six months ended September 30, 2008 and 2007, respectively. The initial term of the Loveland office lease is seven years with one five-year extension. There is also a separate lease for 2,254 square feet of adjoining office space that is currently being occupied by Five Star Cattle Systems, a MF Cattle Feeding, Inc. subsidiary. The lease allows for 3□ annual escalations, and includes the tenant's pro rata share of operating expenses.

## 11. Related party transactions

The Company has an agreement with ContiBeef whereby ContiBeef would provide certain services by ContiGroup Companies, Inc. for □1 million annually. Expenses for the six months ended September 30, 2008 and 2007 were □265 thousand and □390 thousand, respectively.

## 12. Significant customers

Outside customers accounted for 3% and 16% of the total cattle on feed at the Company's feedyards for the six months ended September 30, 2008 and 2007, respectively.

## 13. Employee benefit plans

The Company sponsored a defined contribution plan 401(k) Plan, administered by The Vanguard Group. All employees may participate by contributing a portion of their annual earnings to the plan. The Company's contributions are based on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Total contributions were approximately \$105 thousand and \$86 thousand for the six month period ended September 30, 2008 and 2007, respectively.

## 14. Derivative instruments and hedging activity

The Company is exposed to market risk, such as changes in commodity prices for its main raw materials—feeder cattle and corn, and its finished product—live cattle. The Company's exposure to commodity price risk relates to raw material and finished product price fluctuations caused by supply conditions, weather, economic conditions, and other factors. To manage volatility associated with these exposures, the Company may enter into derivative transactions pursuant to established Company policies. Generally, the Company utilizes commodity futures and option contracts to reduce the volatility of commodity input prices on corn and feeder cattle and commodity prices on live cattle.

Options are used to economically hedge a portion of the market risk, even though the Company has elected not to designate these positions as accounting hedges. The Company enters into futures and options transactions with established brokers.

The Company considers its use of derivative instruments to be an economic hedge against changing prices. At September 30, 2008 and March 31, 2008, all open derivative contracts were recorded at fair value in accordance with SFAS No. 133. These contracts are recorded within current assets when the unrealized value is a gain and within current liabilities when the unrealized value is a loss. The Company designates contracts for the future purchase or sale of certain commodities as normal purchase normal sales and thus these contracts are not marked-to-market. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. The Company links all hedges to forecasted transactions and assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items, both at the inception of the hedge and on an ongoing basis.

*Trading Activities*— During the six months ended September 30, 2008 and 2007, the Company had the following derivative activities, which while economic hedges, were not accounted for as hedges and whose gains or losses are reflected in Other revenues on the Statements of Operations:

- *Corn Purchases*— As of September 30, 2008 and 2007, the Company had open derivative contracts on 700 thousand and 11.5 million bushels of corn, respectively, to hedge or unwind pricing on future purchases at various feedyards. At September 30, 2008 and 2007, these positions had unrealized losses totaling \$557 thousand and \$224 thousand, respectively. During the six months ended September 30, 2008, the Company recorded \$474 thousand in realized gains on these positions. During the six months ended September 30, 2007, the Company recorded \$14 thousand in realized losses on these positions.
- *Feeder Cattle Purchases*— As of September 30, 2008, the Company had open derivative contracts on 300,000 pounds of feeder cattle to hedge purchases at various feedyards which carried an unrealized loss of \$8 thousand. At September 30, 2007, there were no open positions on feeder cattle that were not designated as accounting hedges, and realized losses totaling \$418 thousand were recorded for the six months then ended.
- *Live Cattle Sales*— As of September 30, 2008 and 2007, the Company had open derivative contracts on 220.4 million and 166.7 million pounds of live cattle, respectively, to hedge future sales at various feedyards. At September 30, 2008 and 2007, these positions had net unrealized losses totaling \$2.3 million and \$4.3 million, respectively. During the six months ended September 30, 2008 and 2007, the Company recorded realized gains on these positions of \$10.8 million and \$10.9 million, respectively.
- *Natural Gas Purchases*— During the six months ended September 30, 2008, the Company recorded \$23 thousand in unrealized losses on natural gas contracts to hedge future purchases at various feedyards. As of September 30, 2007, there were no open derivative contracts on natural gas.

□ *Soybean Meal Purchases* □ During the six months ended September 30, 2007, the Company recorded □96 thousand in realized gains on soybean meal. There was no soybean meal derivative contracts traded for the period ended September 30, 2008.

*Hedging Activities* □ During the six months ended September 30, 2008 and 2007, the Company had the following derivatives which were appropriately designated and accounted for as hedges:

□ *Feeder Cattle Purchases* □ As of September 30, 2008 and 2007, the Company had no open derivative contracts on feeder cattle. For the six months ended September 30, 2007, the Company recorded □229 thousand in realized gains on feeder cattle hedges which have been recorded in other income due to ineffectiveness of these hedges.

□ *Live Cattle Sales* □ As of September 30, 2008, the Company had open derivative contracts on 164.6 million pounds of live cattle to hedge future sales at various feedyards which are being accounted for as cash flow hedges. These positions had unrealized gains totaling □13.5 million and realized gains totaling □3.3 million which were recorded in accumulated other comprehensive loss. During the six months ended September 30, 2008, the Company realized □13.0 million in losses on live cattle hedges. Of this, □3.7 million of losses have been recorded in cost of sales, and □9.3 million of losses have been recorded in other income due to ineffectiveness of these hedges.

As of September 30, 2007, the Company had open derivative contracts on 182 million pounds of live cattle to hedge future sales at various feedyards which were being accounted for as cash flow hedges. These positions had unrealized losses totaling □8.7 million and realized losses totaling □1.3 million which were recorded in accumulated other comprehensive income. During the six months ended September 30, 2007, the Company realized □3 million in gains on live cattle hedges. Of this, □600 thousand of gains have been recorded in cost of sales, and □2.4 million in gains have been recorded in other income due to ineffectiveness on these hedges.

## 15. Disclosures about fair value of financial instruments

The Company adopted SFAS No. 157, "*Fair Value Measurements*." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The criterion that is set forth in this standard is applicable to the fair value measurement where it is permitted or required under other accounting pronouncements. SFAS No. 157 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

□ Level 1 consists of observable market data in an active market for identical assets or liabilities.

□ Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.

□ Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company, not a market participant, if there is little available market data and the Company's own assumptions are considered by management to be the best available information.

In the case of multiple inputs being used in fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported. The adoption of SFAS No. 157 has not resulted in any significant changes to the methodologies used for fair value measurement. The Company uses derivatives for the purpose of mitigating exposure to market risk in commodity prices. The Company uses exchange-traded futures and options to hedge grain and natural gas commodities.

The fair value of derivative assets and liabilities are reflected on the balance sheet totaling \$13.9 million and \$3.3 million, respectively. The fair value measurements are performed on a recurring basis and the level of the fair value hierarchy in which they fall are as follows at September 30, 2008 (in thousands):

<b>Level 1</b>	<b>September 30, 2008</b>
<b>Assets:</b>	
Commodity derivatives total fair value .....	\$13,951
<b>Liabilities:</b>	
Commodity derivatives total fair value .....	\$3,310

## 16. Subsequent events

On October 23, 2008, Smithfield Foods acquired from Continental Grain Company its 50% ownership interest in the Company and simultaneously on that date JBS USA, Inc. effectively acquired 100% ownership interest in the Company in a transaction accounted for as a purchase. The livestock inventory was retained by Smithfield Foods and Continental Grain Company. The nature of operations of the Company was modified so that in periods following the change of control, the Company will provide cattle feeding services only and will not sell cattle except on behalf of the cattle owners. As a result of this change, certain accounting policies including derivative trading activities were changed by the successor company.

*shares*



*Common stock*

## **Prospectus**

**J.P.Morgan**

**BofA Merrill Lynch**

, 2009

**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.**

**No action is being taken in any jurisdiction outside the United States and Brazil to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.**

**Until , 2009, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

## Part II

### Information not required in the prospectus

#### Item 13. Other expenses of issuance and distribution.

The following table sets forth the expenses (other than underwriting compensation expected to be incurred) in connection with this offering. All of such amounts (except the SEC registration fee and FINRA filing fee) are estimated.

SEC registration fee .....	\$111,600
FINRA filing fee .....	75,500
NYSE listing fee .....	<input type="checkbox"/>
Printing and engraving expenses .....	<input type="checkbox"/>
Legal fees and expenses .....	<input type="checkbox"/>
Accounting fees and expenses .....	<input type="checkbox"/>
Blue Sky fees and expenses (including legal fees).....	<input type="checkbox"/>
Transfer agent and registrar fees and expenses .....	<input type="checkbox"/>
Miscellaneous.....	<input type="checkbox"/>
Total .....	<input type="checkbox"/>

To be completed by amendment.

#### Item 14. Indemnification of directors and officers.

Upon completion of this offering, the Registrant's amended and restated certificate of incorporation will contain provisions that eliminate, to the maximum extent permitted by the General Corporation Law of the State of Delaware, the personal liability of the Registrant's directors and executive officers for monetary damages for breach of their fiduciary duties as directors or officers. The Registrant's amended and restated certificate of incorporation and bylaws will provide that the Registrant must indemnify its directors and executive officers and may indemnify its employees and other agents to the fullest extent permitted by the General Corporation Law of the State of Delaware.

Sections 145 and 102(b)(7) of the General Corporation Law of the State of Delaware provide that a corporation may indemnify any person made a party to an action by reason of the fact that he or she was a director, executive officer, employee or agent of the corporation or is or was serving at the request of a corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of an action by or in right of the corporation, no indemnification may generally be made in respect of any claim as to which such person is adjudged to be liable to the corporation.

The Registrant has entered into indemnification agreements with its current directors and executive officers, in addition to the indemnification provided for in its amended and restated certificate of incorporation and bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

The Registrant has purchased and intends to maintain insurance on behalf of each any person who is or was a director or officer of the Registrant against any loss arising from any claim asserted against him or her and incurred by him or her in any such capacity, subject to certain exclusions.

The Underwriting Agreement (see Exhibit 1.1 hereto) provides for indemnification by the international underwriters of the Registrant, certain of its stockholders and its executive officers and directors, and by the Registrant of the underwriters, for certain liabilities, including liabilities arising under the Securities Act.

See also the undertakings set out in response to Item 17 herein.

## **Item 15. Recent sales of unregistered securities.**

On April 27, 2009, in a transaction exempt from the registration requirements of the Securities Act of 1933, or the Securities Act, our wholly owned subsidiaries JBS USA, LLC and JBS USA Finance, Inc. issued 11.625% senior unsecured notes due 2014 in an aggregate principal amount of \$700.0 million, which, after deducting initial purchaser discounts, commissions and expenses in respect of this offering, generated net proceeds of approximately \$650.8 million. The notes were sold to several initial purchasers for whom J.P. Morgan Securities Inc. and Banc of America Securities LLC acted as representatives, and resold by the initial purchasers to qualified institutional buyers in reliance upon Rule 144A under the Securities Act and to persons outside the United States in reliance upon Regulation S of the Securities Act. The proceeds of the note issuance were used to repay \$100.0 million of borrowings under our secured revolving credit facility and to repay \$550.8 million of the outstanding principal and accrued interest on intercompany loans to us from a subsidiary of JBS S.A.

## **Item 16. Exhibits and financial statement schedules.**

**The following Exhibits are filed as part of this Registration Statement.**

**(a) Exhibits:**

The attached exhibit index is incorporated herein by reference.

**(b) Financial statement schedules.**

None.

## **Item 17. Undertakings.**

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the international underwriting agreement certificates in such denominations and registered in such names as required by the international underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



# Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Greeley, State of Colorado, on July 22, 2009.

JBS USA HOLDINGS, INC.

By:            WESLEY MENDONÇA BATISTA          

Name: **Wesley Mendonça Batista**  
Title: **Chief Executive Officer**

## Power of attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Wesley Mendonça Batista, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign (1) any and all amendments to this Form S-1 (including post-effective amendments) and (2) any registration statement or post-effective amendment thereto to be filed with the Securities and Exchange Commission pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and any other regulatory authority, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>          <input type="checkbox"/> WESLEY MENDONÇA BATISTA          </u> <b>Wesley Mendonça Batista</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	July 22, 2009
<u>          <input type="checkbox"/> ANDRÉ NOGUEIRA DE SOUZA          </u> <b>André Nogueira de Souza</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	July 22, 2009
<u>          <input type="checkbox"/> JOESLEY MENDONÇA BATISTA          </u> <b>Joesley Mendonça Batista</b>	Director	July 22, 2009
<u>          <input type="checkbox"/> JOSÉ BATISTA JÚNIOR          </u> <b>José Batista Júnior</b>	Director	July 22, 2009

# Exhibit index

Exhibit number	Exhibit title
1.1☐	Form of Underwriting Agreement
3.1☐	Certificate of Incorporation of the Registrant, as currently in effect
3.2☐	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be effective upon closing of the offering
3.3☐	Bylaws of the Registrant, as currently in effect
3.4☐	Form of Amended and Restated Bylaws of the Registrant, to be effective upon closing of the offering
4.1☐	Specimen Common Stock Certificate of the Registrant
5.1☐	Opinion of White ☐ Case LLP
10.1.1	Indenture by and among JBS USA, LLC, JBS USA Finance, Inc., JBS USA Holdings, Inc., each of the other guarantors named therein, and The Bank of New York Mellon, dated April 27, 2009
10.1.2	Indenture by and between JBS S.A., JPMorgan Chase Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and J.P. Morgan Bank Luxembourg S.A., dated August 4, 2006
10.1.3	First Supplemental Indenture by and between JBS S.A., JBS Finance Ltd., Flora Produtos de Higiene e Limpeza Ltda., and The Bank of New York Mellon, dated January 31, 2007
10.1.4	Second Supplemental Indenture by and between JBS S.A., JBS Finance Ltd., the Registrant, and The Bank of New York Mellon, dated September 6, 2007
10.1.5	Third Supplemental Indenture by and between JBS S.A., JBS Finance Ltd., and The Bank of New York Mellon, dated August 14, 2008
10.1.6☐	Revolving Loan Credit Agreement by and among JBS USA, LLC (formerly JBS USA, Inc.), the other credit parties signatories thereto, General Electric Capital Corporation, GE Capital Markets, Inc., Credit Suisse Securities (USA) LLC, Rabobank Nederland, JPMorgan Securities Inc. and JPMorgan Chase Bank, N.A., dated November 5, 2008
10.1.7☐	Amendment No. 1 to Revolving Loan Credit Agreement, dated December 29, 2008
10.1.8☐	Amendment No. 2 to Revolving Loan Credit Agreement, dated April 22, 2009
10.1.9☐	Guaranty and Security Agreement by and among JBS USA, LLC (formerly JBS USA, Inc.), each other grantor party thereto and General Electric Capital Corporation, dated November 5, 2008
10.1.10☐	Amended and Restated Credit Agreement by and among J☐F Oklahoma Holdings Inc., Five Rivers Ranch Cattle Feeding, LLC, Co☐peratieve Centrale Raiffeisen-Boerenleenbank B.A. ☐Rabobank Nederland☐, New York Branch, each of the banks or other lending institutions which is a signatory thereto, ING Capital LLC, Bank of America, N.A., US Bank National Association, and Wells Fargo Bank, National Association, dated October 7, 2008
10.1.11☐	Second Amendment to Amended and Restated Credit Agreement by and among J☐F Oklahoma Holdings Inc., Five Rivers Ranch Cattle Feeding LLC, each of the banks or other lending institutions which is a signatory thereto, and Co☐peratieve Centrale Raiffeisen-Boerenleenbank B.A. ☐Rabobank Nederland☐, New York Branch, dated October 31, 2008

<b>Exhibit number</b>	<b>Exhibit title</b>
10.1.12☐	Amended and Restated Security Agreement by and among J☐F Oklahoma Holdings Inc., Five Rivers Ranch Cattle Feeding LLC, any subsidiary of J☐F Oklahoma Holdings Inc. and/or Five Rivers Ranch Cattle Feeding LLC that may execute and deliver the Subsidiary Joinder Agreement, and Co☐peratieve Centrale Raiffeisen-Boerenleenbank B.A. ☐Rabobank Nederland☐ New York Branch, dated October 7, 2008
10.1.13☐	Consolidated, Amended and Restated Intercompany Loan Agreement dated April 27, 2009 by and between JBS HU Liquidity Management LLC and its Swiss branch, JBS HU Liquidity Management LLC Szombathely (HU) Zug Branch, and JBS USA Holdings, Inc.
10.1.14☐	Corporate Offer Letter, by and among Swift Australia (Southern) Pty Limited (formerly Tasman Group Services Pty Ltd A.C.N., Baybrick Pty Ltd, JBS Southern Australia Pty Ltd, JBS Southern Holdco Pty Ltd and NAB, dated May 2, 2008
10.1.15☐	AUD120,000,000 Facilities Agreement, by and among Swift Australia Pty Ltd, the guarantors specified therein and Australia and New Zealand Banking Group Limited, dated February 26, 2008
10.1.16☐☐	Raw Material Supply Agreement, by and between JBS USA Holdings, Inc. and Beef Products Inc., dated February 27, 2008
10.1.17☐☐	First Amendment to Raw Material Supply Agreement entered into between JBS USA Holdings, Inc. and Beef Products Inc. on February 27, 2008, dated October 20, 2008
10.1.18☐	Amended and Restated Promissory Note issued by JBS USA Holdings, Inc. in favor of NBPCO Holdings, LLC, in the amount of US☐173,191,457.37, dated December 18, 2008
10.1.19☐	Cattle Purchase and Sale Agreement by and between JBS USA, LLC and J☐F Oklahoma Holdings Inc., dated October 23, 2008
10.1.20☐	Cattle Supply and Feeding Agreement by and between Five Rivers Ranch Cattle Feeding LLC and J☐F Oklahoma Holdings Inc., dated October 23, 2008
10.1.21☐	JBS USA Holdings, Inc. 2009 Stock Incentive Plan
15	Letter of BDO Seidman, LLP regarding unaudited interim financial information
21	List of subsidiaries of the Registrant
23.1	Consent of BDO Seidman, LLP
23.2	Consent of Grant Thornton LLP
23.3	Consent of Ernst ☐ Young LLP
23.4	Consent of Deloitte ☐ Touche LLP
23.5☐	Consent of White ☐ Case LLP (included in Exhibit 5.1)
24	Power(s) of attorney (included in the signature pages)

☐ To be filed by amendment.

☐ Portions of these documents are expected to be omitted pursuant to a request by the Registrant for confidential treatment.

Certain debt instruments of the Registrant and its subsidiaries have been omitted as exhibits because the amounts involved in such debt instruments are less than 10% of the Registrant's total assets. Copies of debt instruments for which the related debt is less than 10% of the Registrant's total assets will be furnished to the Commission upon request.

**EXHIBIT F**

**Financial Projections**

EXHIBIT F

**Pilgrim's Pride Corporation**

**Five-Year Business Plan<sup>(1)</sup>**

**Projected Income Statement<sup>(2)</sup>**

(In millions)

	FY 2009					FY 2010					FY 2011					FY		
	Actual Q1	Actual Q2	Actual Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	2012	2013	2014
Net Sales	1,877	1,698	1,777	1,743	7,095	1,777	1,784	1,886	1,904	7,351	1,793	1,801	1,950	1,955	7,500	7,392	7,580	7,845
Cost Of Sales	1,960	1,609	1,602	1,546	6,718	1,665	1,583	1,623	1,640	6,511	1,616	1,622	1,669	1,638	6,545	6,672	6,975	7,196
% of Sales	104.4%	94.8%	90.2%	88.7%	94.7%	93.7%	88.7%	86.1%	86.1%	88.6%	90.1%	90.1%	85.6%	83.8%	87.3%	90.3%	92.0%	91.7%
Gross Margin	(83)	89	174	197	377	113	201	263	264	840	177	179	282	317	955	720	606	649
% of Sales	-4.4%	5.2%	9.8%	11.3%	5.3%	6.3%	11.3%	13.9%	13.9%	11.4%	9.9%	9.9%	14.4%	16.2%	12.7%	9.7%	8.0%	8.3%
Sales, General & Administrative	84	77	75	73	309	81	102	94	95	372	105	91	104	108	408	364	351	366
% of Sales	4.5%	4.5%	4.2%	4.2%	4.4%	4.6%	5.7%	5.0%	5.0%	5.1%	5.8%	5.1%	5.3%	5.5%	5.4%	4.9%	4.6%	4.7%
Other Restructuring Charges	2	12	(7)	-	8	18	-	-	-	18	-	-	-	-	-	-	-	-
Operating Income	(170)	(1)	107	124	60	13	99	168	169	449	72	88	178	209	547	356	254	283
% of Sales	-9.1%	0.0%	6.0%	7.1%	0.8%	0.7%	5.5%	8.9%	8.9%	6.1%	4.0%	4.9%	9.1%	10.7%	7.3%	4.8%	3.4%	3.6%
Interest	39	44	38	38	159	36	28	29	29	122	30	28	28	28	114	110	88	78
Miscellaneous	(1)	(2)	(0)	(1)	(5)	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)	(3)	(3)	(3)	(3)
Reorganization Services	21	14	15	17	68	17	-	-	-	17	-	-	-	-	-	-	-	-
Income Before Taxes	(229)	(56)	54	69	(162)	(39)	71	140	141	313	43	60	150	182	435	248	169	208
Income Taxes Expense	0	2	1	-	3	-	26	52	52	130	16	22	56	67	161	92	62	77
Income / (Loss) from Continuing Ops	(229)	(59)	53	69	(166)	(39)	45	88	89	183	27	38	95	115	274	156	106	131
Income from Discontinued Business	1	0	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss)	\$ (229)	\$ (59)	\$ 53	\$ 69	\$ (165)	\$ (39)	\$ 45	\$ 88	\$ 89	\$ 183	\$ 27	\$ 38	\$ 95	\$ 115	\$ 274	\$ 156	\$ 106	\$ 131
% of Sales	-12.2%	-3.5%	3.0%	4.0%	-2.3%	-2.2%	2.5%	4.7%	4.7%	2.5%	1.5%	2.1%	4.9%	5.9%	3.7%	2.1%	1.4%	1.7%
Net Income	\$ (229)	\$ (59)	\$ 53	\$ 69	\$ (165)	\$ (39)	\$ 45	\$ 88	\$ 89	\$ 183	\$ 27	\$ 38	\$ 95	\$ 115	\$ 274	\$ 156	\$ 106	\$ 131
Extraordinary Charge	-	-	-	-	-	18	-	-	-	18	-	-	-	-	-	-	-	-
Taxes	0	2	1	-	3	-	26	52	52	130	16	22	56	67	161	92	62	77
Interest Expense	39	44	38	38	159	36	28	29	29	122	30	28	28	28	114	110	88	78
Depreciation & Amortization	59	59	55	55	227	57	53	54	55	219	55	52	53	54	215	177	171	179
EBITDA	(131)	46	148	162	225	72	152	223	225	673	128	141	232	264	764	536	428	464
Reorganization and Restructuring <sup>(3)</sup>	23	35	17	22	98	17	-	-	-	17	-	-	-	-	-	-	-	-
Hedging Loss/Other	18	-	-	-	18	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDAR	\$ (90)	\$ 81	\$ 164	\$ 184	\$ 340	\$ 89	\$ 152	\$ 223	\$ 225	\$ 690	\$ 128	\$ 141	\$ 232	\$ 264	\$ 764	\$ 536	\$ 428	\$ 464
% of Sales	-4.8%	4.8%	9.2%	10.6%	4.8%	5.0%	8.5%	11.8%	11.8%	9.4%	7.1%	7.8%	11.9%	13.5%	10.2%	7.2%	5.6%	5.9%

Note: (1) The five-year Business Plan projects treatment of claims based on the Debtors' Disclosure Statement

(2) Actual financial numbers from Q1 to Q3 FY 2009 are not structured based on GAAP; they will not reconcile to the Debtors' public filing documents on line-item basis

(3) Reorganization and Restructuring include professional fee expenses during bankruptcy proceeding, gain/loss in sale of assets during restructuring, shut-down costs, severance, inventory write-down and asset impairment

## EXHIBIT F

**Pilgrim's Pride Corporation****Five-Year Business Plan<sup>(1)</sup>****Projected Balance Sheet<sup>(2)</sup>**

(In millions)

	FY 2009				FY 2010				FY 2011				FY		
	Actual Q1	Actual Q2	Actual Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014
<b>ASSETS</b>															
<b>CURRENT ASSETS</b>															
Cash	\$ 39	\$ 52	\$ 108	\$ 228	\$ 50	\$ 100	\$ 100	\$ 100	\$ 100	\$ 57	\$ 100	\$ 100	\$ 82	\$ 69	\$ 100
Marketable Securities	7	8	6	6	6	6	6	6	6	6	6	6	6	6	6
A/R less allowance for doubtful accts	356	312	291	300	306	310	325	326	301	313	335	334	319	328	339
Inventories	796	826	799	786	801	798	797	814	786	821	819	811	839	879	907
Other Current Assets	171	192	87	87	87	87	87	87	87	87	87	87	87	87	87
Total Current Assets	1,370	1,389	1,291	1,407	1,250	1,301	1,315	1,333	1,280	1,283	1,347	1,339	1,333	1,369	1,439
Other Assets	199	203	209	205	199	185	180	175	171	166	161	157	138	126	116
Property, Plant and Equipment	2,735	2,697	2,700	2,738	2,785	2,837	2,888	2,941	3,004	3,066	3,129	3,191	3,351	3,511	3,671
Less Accumulated Depr. and Amort.	1,089	1,124	1,168	1,220	1,275	1,326	1,379	1,433	1,486	1,537	1,589	1,642	1,814	1,979	2,152
Net Property, Plant and Equipment	1,646	1,573	1,532	1,518	1,510	1,510	1,509	1,509	1,517	1,529	1,539	1,549	1,538	1,532	1,519
<b>TOTAL ASSETS</b>	<b>\$ 3,215</b>	<b>\$ 3,165</b>	<b>\$ 3,031</b>	<b>\$ 3,129</b>	<b>\$ 2,960</b>	<b>\$ 2,996</b>	<b>\$ 3,004</b>	<b>\$ 3,017</b>	<b>\$ 2,968</b>	<b>\$ 2,978</b>	<b>\$ 3,048</b>	<b>\$ 3,045</b>	<b>\$ 3,008</b>	<b>\$ 3,027</b>	<b>\$ 3,074</b>
<b>LIABILITIES AND STK HOLDERS' EQUITY</b>															
<b>CURRENT LIABILITIES</b>															
Accounts Payable	\$ 283	\$ 317	\$ 257	\$ 261	\$ 174	\$ 201	\$ 200	\$ 206	\$ 214	\$ 209	\$ 208	\$ 205	\$ 215	\$ 229	\$ 239
Accrued Expenses	383	382	366	359	253	230	229	233	210	217	219	217	224	241	254
Accrued Interest	49	69	87	109	11	21	22	22	24	22	21	21	21	17	17
Accrued Restructuring Charges	-	-	-	10	7	4	2	1	-	-	-	-	-	-	-
Total Current Liabilities	716	768	710	739	444	456	453	462	448	447	448	443	460	488	510
Short and Long-term Debt	2,192	2,155	2,069	2,069	1,434	1,413	1,336	1,251	1,190	1,162	1,136	1,024	814	699	593
Deferred Federal Income Tax	99	89	41	41	41	41	41	41	41	41	41	41	41	41	41
Other Long Term Liabilities	86	89	94	94	94	94	94	94	94	94	94	94	94	94	94
<b>STOCKHOLDERS' EQUITY</b>															
Common Stock	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Additional Paid-in Capital	647	647	647	647	1,447	1,447	1,447	1,447	1,447	1,447	1,447	1,447	1,447	1,447	1,447
Retained Earnings	(524)	(583)	(530)	(461)	(500)	(456)	(367)	(278)	(251)	(214)	(119)	(4)	152	258	389
Total Stockholders' Equity	123	65	117	187	947	992	1,080	1,169	1,196	1,234	1,329	1,443	1,599	1,706	1,837
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 3,215</b>	<b>\$ 3,165</b>	<b>\$ 3,031</b>	<b>\$ 3,129</b>	<b>\$ 2,960</b>	<b>\$ 2,996</b>	<b>\$ 3,004</b>	<b>\$ 3,017</b>	<b>\$ 2,968</b>	<b>\$ 2,978</b>	<b>\$ 3,048</b>	<b>\$ 3,045</b>	<b>\$ 3,008</b>	<b>\$ 3,027</b>	<b>\$ 3,074</b>

Note: (1) The five-year Business Plan projects treatment of claims based on the Debtors' Disclosure Statement

(2) The projected balance sheet does not reflect certain post-emergence accounting treatments that the Debtors might have to undertake

Actual financial numbers from Q1 to Q3 FY 2009 are not structured based on GAAP; they will not reconcile to the Debtors' public filing documents on line-item basis

EXHIBIT F

**Pilgrim's Pride Corporation**  
**Five-Year Business Plan<sup>(1)</sup>**  
**Projected Cash Flow Statement<sup>(2)</sup>**  
(In millions)

	FY 2009					FY 2010					FY 2011					FY		
	Actual Q1	Actual Q2	Actual Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	2012	2013	2014
<b>OPERATING ACTIVITIES:</b>																		
Net Income (Loss) from Continuing Operations	\$ (229)	\$ (59)	\$ 53	\$ 69	\$ (165)	\$ (39)	\$ 45	\$ 88	\$ 89	\$ 183	\$ 27	\$ 38	\$ 95	\$ 115	\$ 274	\$ 156	\$ 106	\$ 131
Noncash Expenses Included in Income:																		
Depreciation and Amortization	60	61	57	56	234	58	53	54	55	220	55	52	53	54	215	177	171	179
Deferred Federal Income Taxes	-	-	5	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (incl (Gain)/Loss on sale of PP&E)	(0)	(5)	(14)	-	(19)	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Operating Assets and Liabilities																		
Accounts and other receivables	(206)	44	19	(9)	(151)	(6)	(4)	(15)	(2)	(26)	25	(12)	(23)	1	(8)	15	(9)	(11)
Inventories	268	(29)	27	13	278	(16)	3	1	(17)	(29)	28	(35)	2	7	3	(27)	(40)	(28)
Other Current Assets	16	5	4	0	25	30	10	-	-	40	-	-	-	-	-	-	-	-
Accounts Payable and Accrued Exp.	(7)	7	(50)	18	(32)	(291)	15	(2)	10	(267)	(13)	(1)	1	(6)	(18)	17	28	23
Accrued Restructuring Charges	-	-	-	10	10	(4)	(3)	(2)	(1)	(9)	(1)	-	-	-	(1)	-	-	-
Other Current Liabilities	(14)	(7)	8	-	(13)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow From Operating Activities	(112)	18	108	159	172	(267)	119	126	134	111	121	43	129	172	464	339	256	293
<b>INVESTING ACTIVITIES:</b>																		
Acquisition of Property, Plant and Equip	(29)	(19)	(17)	(38)	(104)	(47)	(52)	(52)	(53)	(203)	(63)	(63)	(63)	(63)	(250)	(160)	(160)	(160)
Proceeds from Property Disposals	1	6	69	-	76	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	(1)	(2)	(6)	-	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow From Investing Activities	(29)	(15)	46	(38)	(37)	(47)	(52)	(52)	(53)	(203)	(63)	(63)	(63)	(63)	(250)	(160)	(160)	(160)
<b>FINANCING ACTIVITIES:</b>																		
Change in Cash Mgmt Obligations	(115)	44	(8)	-	(79)	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on Debt / Capital Leases	235	(34)	(89)	-	112	(635)	(20)	(78)	(85)	(818)	(61)	(28)	(26)	(112)	(227)	(210)	(115)	(106)
Net Proceeds - Sale of Equity	(0)	(0)	-	-	(0)	800	-	-	-	800	-	-	-	-	-	-	-	-
Financing Costs	-	-	(1)	-	(1)	(28)	3	3	3	(19)	3	3	3	3	13	13	6	5
Cash Dividends	(0)	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow From Financing Activities	119	10	(98)	-	32	136	(17)	(74)	(82)	(37)	(58)	(24)	(23)	(109)	(214)	(197)	(109)	(102)
Incr. (Decr.) in Cash and Cash Equivalents	(22)	12	56	120	167	(178)	50	-	-	(128)	(0)	(43)	43	-	-	(18)	(14)	31
Beginning Cash and Cash Equivalents	62	39	52	108	62	228	50	100	100	228	100	100	57	100	100	100	82	69
Ending Cash and Cash Equivalents	\$ 39	\$ 52	\$ 108	\$ 228	\$ 228	\$ 50	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 57	\$ 100	\$ 100	\$ 100	\$ 82	\$ 69	\$ 100

Note: (1) The five-year Business Plan projects treatment of claims based on the Debtors' Disclosure Statement

(2) Actual financial numbers from Q1 to Q3 FY 2009 are not structured based on GAAP; they will not reconcile to the Debtors' public filing documents on line-item basis

**EXHIBIT G**

**The Liquidation Analysis**



**Pilgrims Pride Corporation**  
**Liquidation Analysis**

***Best Interests Test***

Pursuant to section 1129(a)(7) of the Bankruptcy Code, each holder of an impaired Claim or Equity Interest must either (a) accept the Plan or (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such non-accepting holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code (the “Best Interests Test”). In connection with this requirement, the following hypothetical liquidation analysis (the “Liquidation Analysis”) has been prepared by the Debtors. The purpose of the Liquidation Analysis is to provide information so that the Bankruptcy Court may determine that the Plan is in the best interests of all classes impaired by the Plan.

THE DEBTORS’ LIQUIDATION ANALYSIS IS AN ESTIMATE OF THE PROCEEDS THAT MAY BE GENERATED AS A RESULT OF A HYPOTHETICAL CHAPTER 7 LIQUIDATION OF THE ASSETS OF THE DEBTORS. UNDERLYING THE LIQUIDATION ANALYSIS ARE A NUMBER OF ESTIMATES AND ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT LEGAL, ECONOMIC, COMPETITIVE, AND OPERATIONAL UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS’ MANAGEMENT AND THEIR ADVISORS. ADDITIONALLY, VARIOUS LIQUIDATION DECISIONS UPON WHICH CERTAIN ASSUMPTIONS ARE BASED ARE SUBJECT TO CHANGE. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE ASSUMPTIONS AND ESTIMATES EMPLOYED IN DETERMINING THE LIQUIDATION VALUES OF THE DEBTORS’ ASSETS WILL RESULT IN THE PROCEEDS WHICH WOULD BE REALIZED WERE THE DEBTORS TO UNDERGO AN ACTUAL LIQUIDATION AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE. THIS ANALYSIS HAS NOT BEEN EXAMINED OR REVIEWED BY INDEPENDENT ACCOUNTANTS IN ACCORDANCE WITH STANDARDS PROMULGATED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (THE “AICPA”).

***General Assumptions***

To illustrate compliance with the Best Interests Test described above, Management together with CRG Partners Group, LLC prepared a Liquidation Analysis for the consolidated Debtors as well as each individual Debtor. The results of each Liquidation Analysis and related assumptions are detailed in the subsequent pages.

The Debtors first determined the net recovery proceeds that would be generated from a hypothetical chapter 7 orderly liquidation of all assets by a trustee appointed by the Court. For preparation of the Liquidation Analysis, the Debtors used the recent book value of assets as of June 27, 2009 and market value of certain assets, if available. Each Liquidation Analysis outlines a “Low Case”, “Base Case” and “High Case” recovery and liquidation scenario. The Low Case and High Case provide an estimated range of recovery values based upon an orderly liquidation process with the Base Case being the most likely result. The recovery estimates represent a range based upon the Debtors’ assumptions regarding the quality of the asset and current market dynamics in which to sell the asset.

The gross amount of cash available from liquidation of all assets and cash held by each Debtor is then applied to the wind-down costs incurred from the liquidation. In addition, prior to paying any claims, the Debtors’ must pay the trustee, financial advisors, commissions on sale of equipment, and

counsel for the trustee. Once all expenses related to the chapter 7 process are paid, the net proceeds are applied to each class of claims in order of absolute priority.

The Debtors' do not include estimates for additional claims from the conversion to a chapter 7 liquidation, including potential contract rejection claims from the rejection of executory contracts and unexpired leases pursuant to section 365 of the Bankruptcy Code, potential claims from the rejection of various management employment contracts and any possible claims from the Workers Adjustment and Retraining Notification Act ("WARN Act"). In addition, the Debtors have not estimated any proceeds from recovery of preference payments, fraudulent transfers or other causes of action.

### ***Conclusion***

The Debtors have determined that confirmation of the Plan will provide all Holders of Allowed Claims and Equity Interests a recovery that is equal to or greater than would be received pursuant to a chapter 7 liquidation of each Debtor or consolidated Debtors. Under the Base Case Liquidation Analysis for the consolidated Debtors, the Secured Claims and Administrative Expense Claims would receive a full recovery; however, all remaining claims would receive either a partial recovery or no recovery.

A detailed summary of the Liquidation Analysis for the consolidated Debtors is illustrated below.

## Pilgrims Pride Corporation - Consolidated Debtors

### Orderly Liquidation Analysis

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
<b>Cash</b>	(1)	78.9	78.9	78.9	100.0%	78.9	100.0%	78.9	100.0%
<b>Accounts Receivable</b>	(2)								
Current		182.0	182.0	169.2	93.0%	172.9	95.0%	178.3	98.0%
1 to 15 days past due		83.2	83.2	74.9	90.0%	76.6	92.0%	79.1	95.0%
16 - 30 days past due		3.9	3.9	3.2	80.0%	3.4	85.0%	3.6	90.0%
31 - 45 days past due		1.3	1.3	0.8	60.0%	0.9	70.0%	1.0	80.0%
46 - 60 days past due		0.5	0.5	0.2	45.0%	0.3	55.0%	0.3	65.0%
Over 60 days past due		1.8	1.8	-	0.0%	0.3	15.0%	0.6	35.0%
<b>Total Trade AR</b>		<b>272.7</b>	<b>272.7</b>	<b>248.3</b>	<b>91.0%</b>	<b>254.2</b>	<b>93.2%</b>	<b>262.9</b>	<b>96.4%</b>
Plus: Other AR		2.8	2.8	-	0.0%	0.3	10.0%	0.4	15.0%
Plus: Affiliate AR		0.2	0.2	0.2	100.0%	0.2	100.0%	0.2	100.0%
Less: AR Adjustments		(11.5)	(11.5)	(11.5)		(11.5)		(11.5)	
<b>Total Recoverable AR</b>		<b>264.3</b>	<b>264.3</b>	<b>237.0</b>	<b>89.7%</b>	<b>243.2</b>	<b>92.0%</b>	<b>252.1</b>	<b>95.4%</b>
<b>Inventory</b>	(3)								
Finished Meat Inventory		263.3	245.3	208.5	85.0%	220.8	90.0%	233.1	95.0%
WIP Inventory		124.4	124.4	87.1	70.0%	93.3	75.0%	99.5	80.0%
Plant Supplies		63.6	63.6	31.8	50.0%	35.0	55.0%	38.1	60.0%
Packaging & Ingredients		56.2	56.2	28.1	50.0%	30.9	55.0%	33.7	60.0%
Other Supplies & Inventory		4.5	4.5	2.2	50.0%	2.5	55.0%	2.7	60.0%
<b>Total Recoverable Inventory</b>		<b>511.9</b>	<b>493.9</b>	<b>357.7</b>	<b>72.4%</b>	<b>382.4</b>	<b>77.4%</b>	<b>407.1</b>	<b>82.4%</b>
<b>Other Assets</b>	(4)								
Deposits		15.1	15.1	14.3	95.0%	14.8	98.0%	15.1	100.0%
Legal Retainers		1.3	1.3	1.2	95.0%	1.2	98.0%	1.3	100.0%
Prepaid Expenses		9.6	9.6	6.3	65.0%	7.2	75.0%	8.2	85.0%
Life Insurance CSV		8.6	8.6	5.6	65.0%	6.5	75.0%	7.3	85.0%
Investments		8.2	8.2	-	0.0%	0.8	10.0%	1.2	15.0%
Intangibles		64.5	81.0	-	0.0%	8.1	10.0%	12.2	15.0%
<b>Total Recoverable Other Assets</b>		<b>107.3</b>	<b>123.8</b>	<b>27.4</b>	<b>22.1%</b>	<b>38.6</b>	<b>31.2%</b>	<b>45.2</b>	<b>36.5%</b>
<b>Fixed Assets</b>	(5)								
Property, Plant & Equipment		2,338.4	2,187.9	1,093.9	50.0%	1,203.3	55.0%	1,312.7	60.0%
Rolling Stock		35.4	37.5	18.8	50.0%	20.6	55.0%	22.5	60.0%
Construction		0.7	53.8	-	0.0%	5.4	10.0%	8.1	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>2,374.5</b>	<b>2,279.2</b>	<b>1,112.7</b>	<b>48.8%</b>	<b>1,229.4</b>	<b>53.9%</b>	<b>1,343.3</b>	<b>58.9%</b>
<b>Intercompany Accounts</b>	(6)	728.6	728.6	142.4	19.5%	158.9	21.8%	174.9	24.0%
<b>Gross Liquidation Proceeds</b>		<b>4,065.4</b>	<b>3,968.8</b>	<b>1,956.1</b>		<b>2,131.4</b>		<b>2,301.5</b>	
<b>Liquidation Expenses</b>	(7)								
Wind Down Costs				(61.5)		(76.8)		(92.2)	
Trustee & Receiver Fees		3.0		(56.2)		(61.4)		(66.5)	
Counsel for Trustee				(25.9)		(28.4)		(30.8)	
Commission on Equipment Sale		5.0		(55.6)		(61.5)		(67.2)	
Professional Fees				(27.0)		(40.5)		(54.0)	
<b>Total Liquidation Expenses</b>				<b>(226.2)</b>		<b>(268.6)</b>		<b>(310.7)</b>	
<b>Proceeds Available for Distribution</b>				<b>1,729.9</b>		<b>1,862.8</b>		<b>1,990.9</b>	
	Notes	Book Value	Market Value	ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				\$	%	\$	%	\$	%
<b>Post-Petition Secured Debt</b>	(8)								
Professional Fee Carve-Out		15.7							
BMO DIP Secured Claim		-							
<b>Total Post-Petition Secured Debt</b>		<b>15.7</b>		<b>15.7</b>	<b>100.0%</b>	<b>15.7</b>	<b>100.0%</b>	<b>15.7</b>	<b>100.0%</b>
<b>Pre-Petition Secured Debt</b>	(9)								
BMO Secured Debt		216.8							
BMO LCs		68.3							
CoBank Secured Debt		1,126.4							
Accrued Interest (excluding default)		11.0							
Other Secured Debt		1.8							
<b>Total Pre-Petition Secured Debt</b>		<b>1,424.4</b>		<b>1,424.4</b>	<b>100.0%</b>	<b>1,424.4</b>	<b>100.0%</b>	<b>1,424.4</b>	<b>100.0%</b>
<b>Administrative Expenses</b>	(10)								
503(b)(9) Claims		10.0							
Post-petition AP		144.1							
Post-petition Accrued Liabilities		207.4							
<b>Total Administrative Expenses</b>		<b>361.5</b>		<b>289.8</b>	<b>80.2%</b>	<b>361.5</b>	<b>100.0%</b>	<b>361.5</b>	<b>100.0%</b>
<b>Priority Claims</b>	(11)								
Priority Taxes		15.0							
Other Priority Claims		35.0							
<b>Total Priority Claims</b>		<b>50.0</b>		<b>-</b>	<b>0.0%</b>	<b>50.0</b>	<b>100.0%</b>	<b>50.0</b>	<b>100.0%</b>
<b>Unsecured Debt</b>	(12)								
Pre-petition AP		91.3							
Employee Severance		79.3							
Accrued Default Interest		16.4							
Rejection Claims		33.4							
Contingent & Lawsuit Claims		15.0							
Deferred Benefit Claims		15.0							
Pension Claims		62.0							
Intercompany Claims		689.6							
Senior Unsecured Bonds		436.1							
Junior Unsecured Bonds		281.2							
<b>Total Unsecured Debt</b>		<b>1,719.4</b>		<b>-</b>	<b>0.0%</b>	<b>11.2</b>	<b>0.7%</b>	<b>139.3</b>	<b>8.1%</b>
<b>Equity Interests</b>	(13)								

*Notes to the Liquidation Analysis***1. Cash**

The cash balance for each debtor company consists of all unrestricted cash in various deposit, disbursement and operating accounts as of June 27, 2009. The cash balances reflected in each liquidation analysis do not include amounts for outstanding checks. The Liquidation Analysis assumes that cash will remain the same under each scenario and that all cash will be recovered. It is also assumed that the cash balances are not impacted by the effects of operations during the wind-down period. See Note 7 for further detail regarding costs related to the liquidation and wind-down.

**2. Accounts Receivable**

Accounts receivable primarily consist of trade accounts from customers in the US resulting from the sale of various chicken products. The accounts receivable balances detailed in the Liquidation Analysis reflect book value as of June 27, 2009 and exclude any reserves for bad debt. Recovery on the trade accounts receivable is dependent upon a number of factors, including age of the receivable, which is illustrated in each Liquidation Analysis, the existence of potential customer offsets, and the nature of the transaction and type of customer. It is assumed that the Debtors will collect on the existing accounts receivable using current resources within the Debtors. Since the average days' sales outstanding is approximately 15 days, the majority of trade accounts receivable should be collected within 2 months. The recovery estimates are based upon management's assessment of the age, customer and quality of the accounts. It is assumed that intercompany accounts will be settled among all debtor and non-debtor companies through a parallel liquidation, which is described further in Note 6. PPC Marketing, Ltd. and PPC Transaction Company do not have trade accounts receivable to third-parties as they only support affiliated entities.

Other accounts receivable balances consist of sales on account to various chicken growers for the purchase of parts and supplies from the Debtors. In addition, this line item includes a notes receivable balance and rebates due from certain railroad companies for building various railroad spurs for the purchase and supply of grain.

Affiliate accounts receivable solely consists of accounts due to Pilgrims Pride Corporation and PPC Marketing, Ltd. from the Company's Mexico operations. Recovery is assumed to incur through a similar orderly liquidation of Mexico's assets with full payment of trade credit, secured debt and intercompany accounts. Estimation of recovery proceeds are 100% under each scenario with excess proceeds being distributed to Pilgrims Pride Corporation. Proceeds after payment of obligations are expected to range from \$24.0 million to \$31.8 million, which includes an assumed 50.0% distribution tax rate.

Adjustments to accounts receivable include cash amounts that have yet to be applied to the Company's account balances as well as certain reserves for billing errors and customer adjustments.

**3. Inventory**

Inventories include raw materials (including grain and feed ingredients), live chicken and meat work-in-process inventory, finished chicken product, maintenance parts and supplies. The Debtors assume the liquidation of finished goods inventory will occur through the sale of final chicken products to existing customers and vendors. The finished goods market value is determined based upon the volume as of June 27, 2009 and applying the price per pound for each meat group (i.e., breast meat, tenders, trim,

wings, dark meat, etc) that the Debtors have realized over the previous 6 months. After a market value is determined, a discount is applied due to the liquidation scenario. The Debtors believe finished inventory will be liquidated at a relatively high recovery value as existing customers will continue to order product to minimize disruption to the supply chain. Work-in-progress inventory is treated in the same manner as finished good; however, a lower recovery is utilized to account for additional costs to produce a finished product.

The Liquidation Analysis assumes the chapter 7 trustee will convert all raw material (i.e., live broilers and feed and feed ingredients) and work-in-process inventory into finished goods. The cost of conversion and sale of the converted inventory is included as part of the wind-down costs. See Note 7. The remaining supplies consist of maintenance parts for trucks, trailers and plant equipment and cleaning supplies for the processing complexes. The Debtors assume the recovery of value from supplies and parts through scrap sale.

#### **4. Other Assets**

Other assets primarily include prepaid expenses, legal retainers and deposits, cash surrender value of life insurance, miscellaneous investments and intangibles (i.e., trade names & customer relationships). Recovery estimates are based upon the nature of the asset, possible use of the asset during the liquidation process and an estimate of recovery value under a liquidation scenario. A description of each asset and recovery assumptions are illustrated below.

- **Deposits:** Deposits primarily include cash on account with the Debtors' utility providers as adequate assurance in accordance with the Bankruptcy Code. In addition, the deposit asset includes a small amount for grain purchases. It is assumed that the entire amount of deposits will be recovered as the Debtors will continue paying utility invoices during the wind-down process.
- **Legal Retainers:** Legal retainers related to various law firms retained by the Debtors' and financial advisors to assist in the bankruptcy process. It is assumed the Debtors' would recover most of the legal retainers.
- **Prepaid Expenses:** Prepaid expenses primarily include insurance payments related to property and executive / umbrella coverage policies. The Debtors estimate a recovery between 65.0% - 85.0% of gross book value as of June 27, 2009. As the Debtors will continue paying insurance premiums during the wind-down period, most of the prepaid insurance payments should be recovered.
- **Cash Surrender Value of Life Insurance:** The Debtors have life insurance for certain members of the management team for the benefit of Pilgrims Pride Corporation. Upon liquidation, this coverage will no longer be needed and the Company should recover the full value of the policy's cash surrender value.
- **Investments:** Investments primarily consist of private and non-liquid securities that have marginal value if sold during liquidation. Investments in farm cooperatives are the largest investment type, which the Pilgrim's Debtors bought as part of the Gold Kist acquisition.
- **Intangible Assets:** In late 2008, the Company engaged a third-party firm to appraise the value of its assets, including the Company's intangible assets. The appraisal firm determined the value of the Debtors' trademarks and customer relationships using recent comparable sales and the projected cost savings or income realized from the benefit of holding the trademarks or customer relationships. The appraisal resulted in a valuation of approximately \$81.0 million. It is very difficult to predict the

value a potential buyer would place on these assets, which is primarily driven by the incremental sales attributable to the purchased trademarks and customer relationships. Due to the difficulty in determining value, the Debtors' place no value under the Low Case and minimal recovery in the Base Case and High Case scenarios.

## **5. Fixed Assets**

Fixed assets include real estate, buildings, machinery and equipment, rolling stock and the value of in-process construction projects. Over 95.0% of the fixed asset value for the Debtors' is appraised by a third-party and included in the Liquidation Analysis in order to determine recovery proceeds. The Debtors assume a Base Case recovery of 55.0%, which is based upon the recent sale of a comparable complex adjusted slightly for the difference in performance between the facility sold and the remaining fixed assets. The Debtors' believe 55.0% is a conservative recovery estimate due to the significant negative impact an actual wind-down of the Debtors' operations would have on the U.S. chicken market.

The recent comparable transaction involves the sale of the Farmerville, LA processing complex (the "Facility") to Foster Poultry Farms ("FPF"), which closed in May 2009. The transaction was funded with proceeds from FPF and the State of Louisiana. FPF funded approximately 48.0% of the Facility's appraised value. The Debtors' have applied a small premium above the comparable transaction to account for the relative underperformance of the Farmerville Facility compared to the remaining fixed assets.

The value of in-process construction primarily relates to various improvements to facilities at book value that is not reflected in the fixed asset appraisals. The Debtors have assumed that recovery on in-process construction projects would have marginal value relative to other fixed assets as these projects do not currently provide value and will require additional capital to complete.

## **6. Intercompany Accounts**

The Debtors' intercompany accounts receivable balances are assumed to be recoverable *pari passu* with the general unsecured claims of each debtor. To estimate recovery on intercompany receivables, each debtor and non-debtor entity is liquidated, with the proceeds applied to the obligations of each entity according to the absolute priority rule. Excess proceeds after the payment of all liabilities are distributed to Pilgrim's Pride Corporation and included in the Intercompany Accounts line item.

## **7. Liquidation Expenses**

Liquidation expenses consist of the estimated costs to wind-down the business operations in order to complete the chapter 7 liquidation of the Debtors. Detailed below are the primary items related to the liquidation.

- **Wind-Down Costs:** Under the Base Case liquidation scenario it is assumed the chapter 7 liquidation process will take nine months to complete. The Debtors assume the sale of meat will be realized at full value. Assumed expenses are based upon recent historical run-rate and unit cost cash disbursements and do not include any disbursements for capital expenditures. Certain employees are provided additional compensation as an incentive to remain with the Company through the wind-down process.
- **Trustee & Receiver Fees:** The chapter 7 trustee and receiver fee category consist of a 3.0% estimated payment rate of all proceeds (excluding cash) received from the liquidation and recovery of

the Debtors' assets. Compensation for the chapter 7 trustee will be limited to the fee guidelines in section 326 of the Bankruptcy Code.

- **Counsel for Trustees:** Compensation for the chapter 7 trustee's counsel is estimated at 50.0% of the budgeted trustee and receiver fees.
- **Commission on Equipment Sale:** In order to efficiently liquidate the Debtors' fixed assets, the chapter 7 trustee must engage an equipment liquidator and auctioneer. Compensation for the auctioneer is estimated at 5.0% of all proceeds related to the sale of the Debtors fixed assets, including real estate, buildings, equipment and rolling stock.
- **Professional Fees:** Professional fees represent the costs incurred during the chapter 7 liquidation process for financial advisors, attorneys and other professionals. The Base Case assumes the payment of \$4.5 million for 9 months, while the Low Case assumes the same payment for 12 months and the High Case assumes the same payment for 6 months.

#### **8. *Post-Petition Secured Debt Claims***

The post-petition Secured Debt Claims include the DIP Credit Facility, which commitments remain outstanding but amounts are currently undrawn and professional fees incurred during the chapter 11 cases. On December 2, 2008, the Court approved an Interim Financing Order allowing professional fees (including the Debtors' professionals and the professionals of any official committees appointed in the Chapter 11 Cases) to have priority above the DIP Credit Facility as well as the pre-petition Secured Debt Claims up to amounts incurred prior to a chapter 7 conversion plus up to \$5.0 million incurred to wind-down the chapter 11 cases.

#### **9. *Pre-Petition Secured Debt Claims***

The pre-petition Secured Debt Claims consist of the BMO Secured Claim in the amount of \$287.0 million as of June 27, 2009, which includes principal on the secured debt, letters of credit outstanding and accrued interest. In addition, Secured Debt Claims include the CoBank Secured Claim of \$1,135.4 million in principal and accrued interest as of June 27, 2009. Other Secured Claims include amounts owed on capital leases and a third-party industrial revenue bond provided on a water treatment facility.

It is assumed the letters of credit would be drawn during the wind-down process primarily to cover the expected shortfall in the payment of claims related to the liquidation of GK Insurance, a non-Debtor entity.

The Debtors currently have a bifurcated collateral package whereby BMO has a first lien on all accounts receivable and inventory and CoBank has a first lien on certain real estate properties owned by the Debtors' and a second lien on the accounts receivable and inventory. Although a bifurcated collateral package exists, the pre-petition Secured Debt Claims are estimated to receive a full recovery under each scenario.

#### **10. *Administrative Expense Claims***

Administrative Expense Claims include the following obligations that are entitled to priority status under the Bankruptcy Code: (i) section 503(b)(9) claims related to the value of goods received by the Debtors within 20 days prior to the Petition Date; (ii) outstanding post-petition accounts payable as of

June 27, 2009; and (iii) post-petition accrued expenses that have been incurred and are currently outstanding. The Liquidation Analysis illustrates that the holders of Administrative Expense Claims would receive a partial recovery under the Low Case and a full recovery under the Base Case and High Case.

#### **11. *Priority Claims***

Priority claims include an estimate of settlements related to various unpaid tax claims and other miscellaneous priority claims. Under the chapter 7 liquidation analysis, the Priority Claims would receive no recovery under the Low Case, and a partial recovery under the Base Case and High Case.

#### **12. *General Unsecured Claims***

The General Unsecured Claims in a chapter 7 liquidation would include pre-petition accounts payable, severance payments outstanding, accrued default interest on the Secured Debt Claims, contract rejection claims related to executory and unexpired leases rejected prior to the chapter 7 conversion, claims related to litigation, employee benefit claims and Note Claims, which include principal amount and accrued interest. In a hypothetical chapter 7 liquidation, the General Unsecured Claims would receive a marginal partial recovery under the Base Case and High Case and no recovery under the Low Case.

General Unsecured Claims include intercompany obligations, which are assumed to be settled among each debtor and non-debtor company through a parallel liquidation of assets and payment of obligations at each Debtor or non-debtor.

#### **13. *Equity Interests***

No proceeds are estimated to be available from a hypothetical chapter 7 liquidation to pay the equity interests of the Debtors'.



**Appendix to Liquidation Analysis**

**Liquidation Analysis by Debtor Company**

## Pilgrims Pride Corporation

### Orderly Liquidation Analysis

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
<b>Cash</b>	(1)	83.7	83.7	83.7	100.0%	83.7	100.0%	83.7	100.0%
<b>Accounts Receivable</b>	(2)								
Current		172.0	172.0	159.9	93.0%	163.4	95.0%	168.5	98.0%
1 to 15 days past due		78.6	78.6	70.8	90.0%	72.3	92.0%	74.7	95.0%
16 - 30 days past due		3.6	3.6	2.9	80.0%	3.1	85.0%	3.2	90.0%
31 - 45 days past due		1.3	1.3	0.8	60.0%	0.9	70.0%	1.0	80.0%
46 - 60 days past due		0.5	0.5	0.2	45.0%	0.3	55.0%	0.3	65.0%
Over 60 days past due		1.7	1.7	-	0.0%	0.3	15.0%	0.6	35.0%
<b>Total Trade AR</b>		<b>257.7</b>	<b>257.7</b>	<b>234.6</b>	<b>91.0%</b>	<b>240.2</b>	<b>93.2%</b>	<b>248.4</b>	<b>96.4%</b>
Plus: Other AR		2.6	2.6	-	0.0%	0.3	10.0%	0.4	15.0%
Plus: Affiliate AR		0.2	0.2	0.2	100.0%	0.2	100.0%	0.2	100.0%
Less: AR Adjustments		(11.3)	(11.3)	(11.3)		(11.3)		(11.3)	
<b>Total Recoverable AR</b>		<b>249.1</b>	<b>249.1</b>	<b>223.4</b>	<b>89.7%</b>	<b>229.3</b>	<b>92.0%</b>	<b>237.7</b>	<b>95.4%</b>
<b>Inventory</b>	(3)								
Finished Meat Inventory		260.3	242.6	206.2	85.0%	218.3	90.0%	230.5	95.0%
WIP Inventory		115.2	115.2	80.6	70.0%	86.4	75.0%	92.1	80.0%
Plant Supplies		56.3	56.3	28.1	50.0%	31.0	55.0%	33.8	60.0%
Packaging <input type="checkbox"/> Ingredients		51.6	51.6	25.8	50.0%	28.4	55.0%	30.9	60.0%
Other Supplies <input type="checkbox"/> Inventory		0.5	0.5	0.3	50.0%	0.3	55.0%	0.3	60.0%
<b>Total Recoverable Inventory</b>		<b>483.9</b>	<b>466.2</b>	<b>341.0</b>	<b>73.2%</b>	<b>364.3</b>	<b>78.2%</b>	<b>387.6</b>	<b>83.2%</b>
<b>Other Assets</b>	(4)								
Deposits		15.0	15.0	14.3	95.0%	14.7	98.0%	15.0	100.0%
Legal Retainers		1.3	1.3	1.2	95.0%	1.2	98.0%	1.3	100.0%
Prepaid Expenses		9.2	9.2	6.0	65.0%	6.9	75.0%	7.8	85.0%
Life Insurance CSV		8.6	8.6	5.6	65.0%	6.5	75.0%	7.3	85.0%
Investments		8.2	8.2	-	0.0%	0.8	10.0%	1.2	15.0%
Intangibles		64.5	81.0	-	0.0%	8.1	10.0%	12.2	15.0%
<b>Total Recoverable Other Assets</b>		<b>106.8</b>	<b>123.3</b>	<b>27.1</b>	<b>21.9%</b>	<b>38.2</b>	<b>31.0%</b>	<b>44.8</b>	<b>36.3%</b>
<b>Fixed Assets</b>	(5)								
Property, Plant <input type="checkbox"/> Equipment		-	2,022.7	1,011.3	50.0%	1,112.5	55.0%	1,213.6	60.0%
Rolling Stock		-	2.9	1.4	50.0%	1.6	55.0%	1.7	60.0%
Construction		-	53.2	-	0.0%	5.3	10.0%	8.0	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>2,178.0</b>	<b>2,078.7</b>	<b>1,012.8</b>	<b>48.7%</b>	<b>1,119.4</b>	<b>53.8%</b>	<b>1,223.3</b>	<b>58.8%</b>
<b>Intercompany Accounts</b>	(6)	371.6	371.6	125.3	33.7%	141.5	38.1%	157.3	42.3%
<b>Gross Liquidation Proceeds</b>				<b>1,813.2</b>		<b>1,976.4</b>		<b>2,134.4</b>	
<b>Liquidation Expenses</b>	(7)								
Wind Down Costs				(50.7)		(63.4)		(76.1)	
Trustee <input type="checkbox"/> Receiver Fees		3.0		(51.9)		(56.8)		(61.5)	
Counsel for Trustee				(25.9)		(28.4)		(30.8)	
Commission on Equipment Sale		5.0		(50.6)		(56.0)		(61.2)	
Professional Fees				(27.0)		(40.5)		(54.0)	
<b>Total Liquidation Expenses</b>				<b>(206.2)</b>		<b>(245.0)</b>		<b>(283.5)</b>	
<b>Proceeds Available for Distribution</b>				<b>1,607.0</b>		<b>1,731.4</b>		<b>1,850.9</b>	
	Notes	Book Value	Market Value	ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				\$	%	\$	%	\$	%
<b>Post-Petition Secured Debt</b>	(8)								
Professional Fee Carve-Out		15.7							
BMO DIP Secured Claim		-							
<b>Total Post-Petition Secured Debt</b>		<b>15.7</b>		<b>15.7</b>	<b>100.0%</b>	<b>15.7</b>	<b>100.0%</b>	<b>15.7</b>	<b>100.0%</b>
<b>Pre-Petition Secured Debt</b>	(9)								
BMO Secured Debt		216.8							
BMO LCs		68.3							
CoBank Secured Debt		1,126.4							
Accrued Interest (excluding default)		11.0							
Other Secured Debt		1.8							
<b>Total Pre-Petition Secured Debt</b>		<b>1,424.4</b>		<b>1,424.4</b>	<b>100.0%</b>	<b>1,424.4</b>	<b>100.0%</b>	<b>1,424.4</b>	<b>100.0%</b>
<b>Administrative Expenses</b>	(10)								
503(b)(9) Claims		8.5							
Post-petition AP		127.2							
Post-petition Accrued Liabilities		179.7							
<b>Total Administrative Expenses</b>		<b>315.5</b>		<b>166.9</b>	<b>52.9%</b>	<b>291.3</b>	<b>92.3%</b>	<b>315.5</b>	<b>100.0%</b>
<b>Priority Claims</b>	(11)								
Priority Taxes		15.0							
Other Priority Claims		35.0							
<b>Total Priority Claims</b>		<b>50.0</b>		<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>50.0</b>	<b>100.0%</b>
<b>Unsecured Debt</b>	(12)								
Pre-petition AP		78.2							
Employee Severance		73.4							
Accrued Default Interest		16.4							
Rejection Claims		33.3							
Contingent <input type="checkbox"/> Lawsuit Claims		15.0							
Deferred Benefit Claims		15.0							
Pension Claims		62.0							
Intercompany Claims		255.0							
Senior Unsecured Bonds		436.1							
Junior Unsecured Bonds		281.2							
<b>Total Unsecured Debt</b>		<b>1,265.7</b>		<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>45.3</b>	<b>3.6%</b>
<b>Equity Interests</b>	(13)	-		-		-		-	

## PPC Marketing, Ltd.

### Orderly Liquidation Analysis

				ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
(US in millions)	Notes	Book Value	Market Value	\$	%	\$	%	\$	%
<b>Cash</b>	(1)	0.0	0.0	0.0	100.0%	0.0	100.0%	0.0	100.0%
<b>Accounts Receivable</b>	(2)								
Current		-	-	-	93.0%	-	95.0%	-	98.0%
1 to 15 days past due		-	-	-	90.0%	-	92.0%	-	95.0%
16 - 30 days past due		-	-	-	80.0%	-	85.0%	-	90.0%
31 - 45 days past due		-	-	-	60.0%	-	70.0%	-	80.0%
46 - 60 days past due		-	-	-	45.0%	-	55.0%	-	65.0%
Over 60 days past due		-	-	-	0.0%	-	15.0%	-	35.0%
<b>Total Trade AR</b>		-	-	-	0.0%	-	0.0%	-	0.0%
Plus: Other AR		-	-	-	0.0%	-	10.0%	-	15.0%
Plus: Affiliate AR		0.0	0.0	0.0	100.0%	0.0	100.0%	0.0	100.0%
Less: AR Adjustments		-	-	-	-	-	-	-	-
<b>Total Recoverable AR</b>		0.0	0.0	0.0	100.0%	0.0	100.0%	0.0	100.0%
<b>Inventory</b>	(3)								
Finished Meat Inventory		-	-	-	85.0%	-	90.0%	-	95.0%
WIP Inventory		-	-	-	70.0%	-	75.0%	-	80.0%
Plant Supplies		-	-	-	50.0%	-	55.0%	-	60.0%
Packaging & Ingredients		-	-	-	50.0%	-	55.0%	-	60.0%
Other Supplies & Inventory		-	-	-	50.0%	-	55.0%	-	60.0%
<b>Total Recoverable Inventory</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Other Assets</b>	(4)								
Deposits		-	-	-	95.0%	-	98.0%	-	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		-	-	-	65.0%	-	75.0%	-	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Fixed Assets</b>	(5)								
Property, Plant & Equipment		0.1	0.1	0.1	50.0%	0.1	55.0%	0.1	60.0%
Rolling Stock		-	-	-	50.0%	-	55.0%	-	60.0%
Construction		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Fixed Assets</b>		0.1	0.1	0.1	50.0%	0.1	55.0%	0.1	60.0%
<b>Intercompany Accounts</b>	(6)	85.7	85.7	0.3	0.3%	0.3	0.3%	0.3	0.3%
<b>Gross Liquidation Proceeds</b>				0.4		0.4		0.4	
<b>Liquidation Expenses</b>	(7)								
Wind Down Costs				-		-		-	
Trustee & Receiver Fees		3.0		(0.0)		(0.0)		(0.0)	
Counsel for Trustee				-		-		-	
Commission on Equipment Sale		5.0		(0.0)		(0.0)		(0.0)	
Professional Fees				-		-		-	
<b>Total Liquidation Expenses</b>				(0.0)		(0.0)		(0.0)	
<b>Proceeds Available for Distribution</b>				0.4		0.4		0.4	
				ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
	Notes	Book Value	Market Value	\$	%	\$	%	\$	%
<b>Post-Petition Secured Debt</b>	(8)								
Professional Fee Carve-Out		-		-		-		-	
BMO DIP Secured Claim		-		-		-		-	
<b>Total Post-Petition Secured Debt</b>		-		-	0.0%	-	0.0%	-	0.0%
<b>Pre-Petition Secured Debt</b>	(9)								
BMO Secured Debt		-		-		-		-	
BMO LCs		-		-		-		-	
CoBank Secured Debt		-		-		-		-	
Accrued Interest (excluding default)		-		-		-		-	
Other Secured Debt		-		-		-		-	
<b>Total Pre-Petition Secured Debt</b>		-		-	0.0%	-	0.0%	-	0.0%
<b>Administrative Expenses</b>	(10)								
503(b)(9) Claims		0.0							
Post-petition AP		0.1							
Post-petition Accrued Liabilities		0.2							
<b>Total Administrative Expenses</b>		0.3		0.3	100.0%	0.3	100.0%	0.3	100.0%
<b>Priority Claims</b>	(11)								
Priority Taxes		-		-		-		-	
Other Priority Claims		-		-		-		-	
<b>Total Priority Claims</b>		-		-	0.0%	-	0.0%	-	0.0%
<b>Unsecured Debt</b>	(12)								
Pre-petition AP		0.1							
Employee Severance		0.0							
Accrued Default Interest		-		-		-		-	
Rejection Claims		-		-		-		-	
Contingent & Lawsuit Claims		-		-		-		-	
Deferred Benefit Claims		-		-		-		-	
Pension Claims		-		-		-		-	
Intercompany Claims		79.0							
Senior Unsecured Bonds		-		-		-		-	
Junior Unsecured Bonds		-		-		-		-	
<b>Total Unsecured Debt</b>		79.2		0.1	0.2%	0.1	0.2%	0.2	0.2%
<b>Excess Proceeds to PPC</b>	(13)	-		-		-		-	

# PFS Distribution Company

## Orderly Liquidation Analysis

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
<b>Cash</b>	(1)	(0.0)	(0.0)	(0.0)	100.0%	(0.0)	100.0%	(0.0)	100.0%
<b>Accounts Receivable</b>	(2)								
Current		6.3	6.3	5.9	93.0%	6.0	95.0%	6.2	98.0%
1 to 15 days past due		3.3	3.3	3.0	90.0%	3.0	92.0%	3.1	95.0%
16 - 30 days past due		0.3	0.3	0.2	80.0%	0.3	85.0%	0.3	90.0%
31 - 45 days past due		0.0	0.0	0.0	60.0%	0.0	70.0%	0.0	80.0%
46 - 60 days past due		(0.0)	(0.0)	(0.0)	45.0%	(0.0)	55.0%	(0.0)	65.0%
Over 60 days past due		0.0	0.0	-	0.0%	0.0	15.0%	0.0	35.0%
<b>Total Trade AR</b>		<b>9.9</b>	<b>9.9</b>	<b>9.1</b>	<b>91.4%</b>	<b>9.3</b>	<b>93.5%</b>	<b>9.6</b>	<b>96.6%</b>
Plus: Other AR		0.1	0.1	-	0.0%	0.0	10.0%	0.0	15.0%
Plus: Affiliate AR		-	-	-	100.0%	-	100.0%	-	100.0%
Less: AR Adjustments		(0.1)	(0.1)	(0.1)		(0.1)		(0.1)	
<b>Total Recoverable AR</b>		<b>9.9</b>	<b>9.9</b>	<b>9.0</b>	<b>90.6%</b>	<b>9.2</b>	<b>92.8%</b>	<b>9.5</b>	<b>95.9%</b>
<b>Inventory</b>	(3)								
Finished Meat Inventory		1.8	1.9	1.6	85.0%	1.7	90.0%	1.8	95.0%
WIP Inventory		0.0	0.0	0.0	70.0%	0.0	75.0%	0.0	80.0%
Plant Supplies		0.0	0.0	0.0	50.0%	0.0	55.0%	0.0	60.0%
Packaging <input type="checkbox"/> Ingredients		-	-	-	50.0%	-	55.0%	-	60.0%
Other Supplies <input type="checkbox"/> Inventory		3.9	3.9	2.0	50.0%	2.2	55.0%	2.3	60.0%
<b>Total Recoverable Inventory</b>		<b>5.7</b>	<b>5.8</b>	<b>3.6</b>	<b>61.3%</b>	<b>3.8</b>	<b>66.3%</b>	<b>4.1</b>	<b>71.3%</b>
<b>Other Assets</b>	(4)								
Deposits		0.0	0.0	0.0	95.0%	0.0	98.0%	0.0	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		-	-	-	65.0%	-	75.0%	-	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>95.0%</b>	<b>0.0</b>	<b>98.0%</b>	<b>0.0</b>	<b>100.0%</b>
<b>Fixed Assets</b>	(5)								
Property, Plant <input type="checkbox"/> Equipment		7.0	9.4	4.7	50.0%	5.2	55.0%	5.6	60.0%
Rolling Stock		0.4	0.0	0.0	50.0%	0.0	55.0%	0.0	60.0%
Construction		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>7.4</b>	<b>9.4</b>	<b>4.7</b>	<b>50.0%</b>	<b>5.2</b>	<b>55.0%</b>	<b>5.6</b>	<b>60.0%</b>
<b>Intercompany Accounts</b>	(6)	45.3	45.3	12.5	27.5%	12.5	27.6%	12.5	27.7%
<b>Gross Liquidation Proceeds</b>				<b>29.7</b>		<b>30.7</b>		<b>31.8</b>	
<b>Liquidation Expenses</b>	(7)								
Wind Down Costs									
Trustee <input type="checkbox"/> Receiver Fees		3.0		(1.3)		(1.6)		(2.0)	
Counsel for Trustee				(0.9)		(0.9)		(1.0)	
Commission on Equipment Sale		5.0		-		-		-	
Professional Fees				(0.2)		(0.3)		(0.3)	
<b>Total Liquidation Expenses</b>				<b>(2.4)</b>		<b>(2.8)</b>		<b>(3.2)</b>	
<b>Proceeds Available for Distribution</b>	(12)			<b>27.3</b>		<b>27.9</b>		<b>28.6</b>	
		<b>Book Value</b>	<b>Market Value</b>	<b>ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY</b>					
	<b>Notes</b>			<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Post-Petition Secured Debt</b>	(8)								
Professional Fee Carve-Out		-							
BMO DIP Secured Claim		-							
<b>Total Post-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Pre-Petition Secured Debt</b>	(9)								
BMO Secured Debt		-							
BMO LCs		-							
CoBank Secured Debt		-							
Accrued Interest (excluding default)		-							
Other Secured Debt		-							
<b>Total Pre-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Administrative Expenses</b>	(10)								
503(b)(9) Claims		0.4							
Post-petition AP		5.8							
Post-petition Accrued Liabilities		8.4							
<b>Total Administrative Expenses</b>		<b>14.6</b>		<b>14.6</b>	<b>100.0%</b>	<b>14.6</b>	<b>100.0%</b>	<b>14.6</b>	<b>100.0%</b>
<b>Priority Claims</b>	(11)								
Priority Taxes		-							
Other Priority Claims		-							
<b>Total Priority Claims</b>		<b>-</b>		<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
<b>Unsecured Debt</b>	(12)								
Pre-petition AP		3.4							
Employee Severance		0.6							
Accrued Default Interest		-							
Rejection Claims		-							
Contingent <input type="checkbox"/> Lawsuit Claims		-							
Deferred Benefit Claims		-							
Pension Claims		-							
Intercompany Claims		133.8							
Senior Unsecured Bonds		-							
Junior Unsecured Bonds		-							
<b>Total Unsecured Debt</b>		<b>137.9</b>		<b>12.6</b>	<b>9.2%</b>	<b>13.3</b>	<b>9.6%</b>	<b>14.0</b>	<b>10.1%</b>
<b>Excess Proceeds to PPC</b>	(13)			<b>-</b>		<b>-</b>		<b>-</b>	

**To Ricos, Ltd.**  
**Orderly Liquidation Analysis**

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
Cash	(1)	(1.4)	(1.4)	(1.4)	100.0%	(1.4)	100.0%	(1.4)	100.0%
Accounts Receivable	(2)								
Current		2.0	2.0	1.8	93.0%	1.9	95.0%	1.9	98.0%
1 to 15 days past due		0.4	0.4	0.4	90.0%	0.4	92.0%	0.4	95.0%
16 - 30 days past due		0.0	0.0	0.0	80.0%	0.0	85.0%	0.0	90.0%
31 - 45 days past due		0.0	0.0	0.0	60.0%	0.0	70.0%	0.0	80.0%
46 - 60 days past due		0.0	0.0	0.0	45.0%	0.0	55.0%	0.0	65.0%
Over 60 days past due		0.0	0.0	-	0.0%	0.0	15.0%	0.0	35.0%
<b>Total Trade AR</b>		<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>91.8%</b>	<b>2.3</b>	<b>93.9%</b>	<b>2.4</b>	<b>97.0%</b>
Plus: Other AR		0.0	0.0	-	0.0%	0.0	10.0%	0.0	15.0%
Plus: Affiliate AR		-	-	-	100.0%	-	100.0%	-	100.0%
Less: AR Adjustments		(0.0)	(0.0)	(0.0)	-	(0.0)	-	(0.0)	-
<b>Total Recoverable AR</b>		<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>90.3%</b>	<b>2.3</b>	<b>92.6%</b>	<b>2.3</b>	<b>95.7%</b>
Inventory	(3)								
Finished Meat Inventory		0.2	0.1	0.1	85.0%	0.1	90.0%	0.1	95.0%
WIP Inventory		2.1	2.1	1.5	70.0%	1.6	75.0%	1.7	80.0%
Plant Supplies		0.7	0.7	0.3	50.0%	0.4	55.0%	0.4	60.0%
Packaging □ Ingredients		1.8	1.8	0.9	50.0%	1.0	55.0%	1.1	60.0%
Other Supplies □ Inventory		-	-	-	-	-	55.0%	-	60.0%
<b>Total Recoverable Inventory</b>		<b>4.8</b>	<b>4.8</b>	<b>2.9</b>	<b>59.9%</b>	<b>3.1</b>	<b>64.9%</b>	<b>3.3</b>	<b>69.9%</b>
Other Assets	(4)								
Deposits		-	-	-	95.0%	-	98.0%	-	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		-	-	-	65.0%	-	75.0%	-	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		-	-	-	<b>0.0%</b>	-	<b>0.0%</b>	-	<b>0.0%</b>
Fixed Assets	(5)								
Property, Plant □ Equipment		10.2	25.0	12.5	50.0%	13.8	55.0%	15.0	60.0%
Rolling Stock		0.5	0.1	0.0	50.0%	0.0	55.0%	0.0	60.0%
Construction		0.0	0.0	-	0.0%	0.0	10.0%	0.0	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>10.7</b>	<b>25.1</b>	<b>12.5</b>	<b>50.0%</b>	<b>13.8</b>	<b>55.0%</b>	<b>15.0</b>	<b>60.0%</b>
Intercompany Accounts	(6)	84.1	84.1	1.8	2.1%	1.9	2.3%	2.0	2.4%
<b>Gross Liquidation Proceeds</b>				<b>18.0</b>		<b>19.7</b>		<b>21.4</b>	
Liquidation Expenses	(7)								
Wind Down Costs		-	-	(0.6)	-	(0.8)	-	(0.9)	-
Trustee □ Receiver Fees		3.0	-	(0.5)	-	(0.6)	-	(0.6)	-
Counsel for Trustee		-	-	-	-	-	-	-	-
Commission on Equipment Sale		5.0	-	(0.6)	-	(0.7)	-	(0.8)	-
Professional Fees		-	-	-	-	-	-	-	-
<b>Total Liquidation Expenses</b>				<b>(1.8)</b>		<b>(2.0)</b>		<b>(2.3)</b>	
<b>Proceeds Available for Distribution</b>	<b>(12)</b>			<b>16.3</b>		<b>17.7</b>		<b>19.1</b>	

	Notes	Book Value	Market Value	ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
Post-Petition Secured Debt	(8)								
Professional Fee Carve-Out		-	-	-	-	-	-	-	-
BMO DIP Secured Claim		-	-	-	-	-	-	-	-
<b>Total Post-Petition Secured Debt</b>		-	-	-	<b>0.0%</b>	-	<b>0.0%</b>	-	<b>0.0%</b>
Pre-Petition Secured Debt	(9)								
BMO Secured Debt		-	-	-	-	-	-	-	-
BMO LCs		-	-	-	-	-	-	-	-
CoBank Secured Debt		-	-	-	-	-	-	-	-
Accrued Interest (excluding default)		-	-	-	-	-	-	-	-
Other Secured Debt		-	-	-	-	-	-	-	-
<b>Total Pre-Petition Secured Debt</b>		-	-	-	<b>0.0%</b>	-	<b>0.0%</b>	-	<b>0.0%</b>
Administrative Expenses	(10)								
503(b)(9) Claims		0.1	-	-	-	-	-	-	-
Post-petition AP		2.2	-	-	-	-	-	-	-
Post-petition Accrued Liabilities		2.8	-	-	-	-	-	-	-
<b>Total Administrative Expenses</b>		<b>5.1</b>	-	<b>5.1</b>	<b>100.0%</b>	<b>5.1</b>	<b>100.0%</b>	<b>5.1</b>	<b>100.0%</b>
Priority Claims	(11)								
Priority Taxes		-	-	-	-	-	-	-	-
Other Priority Claims		-	-	-	-	-	-	-	-
<b>Total Priority Claims</b>		-	-	-	<b>0.0%</b>	-	<b>0.0%</b>	-	<b>0.0%</b>
Unsecured Debt	(12)								
Pre-petition AP		0.9	-	-	-	-	-	-	-
Employee Severance		0.9	-	-	-	-	-	-	-
Accrued Default Interest		-	-	-	-	-	-	-	-
Rejection Claims		-	-	-	-	-	-	-	-
Contingent □ Lawsuit Claims		-	-	-	-	-	-	-	-
Deferred Benefit Claims		-	-	-	-	-	-	-	-
Pension Claims		-	-	-	-	-	-	-	-
Intercompany Claims		84.3	-	-	-	-	-	-	-
Senior Unsecured Bonds		-	-	-	-	-	-	-	-
Junior Unsecured Bonds		-	-	-	-	-	-	-	-
<b>Total Unsecured Debt</b>		<b>86.1</b>	-	<b>11.2</b>	<b>13.0%</b>	<b>12.6</b>	<b>14.6%</b>	<b>14.0</b>	<b>16.2%</b>
<b>Excess Proceeds to PPC</b>	<b>(13)</b>	-	-	-	-	-	-	-	-

**PPC of West Virginia, Inc.**  
**Orderly Liquidation Analysis**

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
Cash	(1)	(1.2)	(1.2)	(1.2)	100.0%	(1.2)	100.0%	(1.2)	100.0%
Accounts Receivable	(2)								
Current		0.7	0.7	0.7	93.0%	0.7	95.0%	0.7	98.0%
1 to 15 days past due		0.2	0.2	0.2	90.0%	0.2	92.0%	0.2	95.0%
16 - 30 days past due		(0.0)	(0.0)	(0.0)	80.0%	(0.0)	85.0%	(0.0)	90.0%
31 - 45 days past due		-	-	-	60.0%	-	70.0%	-	80.0%
46 - 60 days past due		-	-	-	45.0%	-	55.0%	-	65.0%
Over 60 days past due		0.0	0.0	-	0.0%	0.0	15.0%	0.0	35.0%
<b>Total Trade AR</b>		<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>90.7%</b>	<b>0.8</b>	<b>92.9%</b>	<b>0.8</b>	<b>96.2%</b>
Plus: Other AR		0.1	0.1	-	0.0%	0.0	10.0%	0.0	15.0%
Plus: Affiliate AR		-	-	-	100.0%	-	100.0%	-	100.0%
Less: AR Adjustments		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Total Recoverable AR</b>		<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>83.4%</b>	<b>0.8</b>	<b>86.2%</b>	<b>0.8</b>	<b>89.7%</b>
Inventory	(3)								
Finished Meat Inventory		0.0	0.0	0.0	85.0%	0.0	90.0%	0.0	95.0%
WIP Inventory		7.1	7.1	4.9	70.0%	5.3	75.0%	5.7	80.0%
Plant Supplies		1.9	1.9	1.0	50.0%	1.1	55.0%	1.2	60.0%
Packaging ☐ Ingredients		2.8	2.8	1.4	50.0%	1.5	55.0%	1.7	60.0%
Other Supplies ☐ Inventory		0.0	0.0	0.0	50.0%	0.0	55.0%	0.0	60.0%
<b>Total Recoverable Inventory</b>		<b>11.9</b>	<b>11.8</b>	<b>7.3</b>	<b>62.0%</b>	<b>7.9</b>	<b>67.0%</b>	<b>8.5</b>	<b>72.0%</b>
Other Assets	(4)								
Deposits		-	-	-	95.0%	-	98.0%	-	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		0.2	0.2	0.1	65.0%	0.2	75.0%	0.2	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>65.0%</b>	<b>0.2</b>	<b>75.0%</b>	<b>0.2</b>	<b>85.0%</b>
Fixed Assets	(5)								
Property, Plant ☐ Equipment		140.2	127.8	63.9	50.0%	70.3	55.0%	76.7	60.0%
Rolling Stock		0.4	0.2	0.1	50.0%	0.1	55.0%	0.1	60.0%
Construction		0.1	0.1	-	0.0%	0.0	10.0%	0.0	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>140.8</b>	<b>128.1</b>	<b>64.0</b>	<b>50.0%</b>	<b>70.4</b>	<b>55.0%</b>	<b>76.8</b>	<b>60.0%</b>
Intercompany Accounts	(6)	26.3	26.3	0.3	1.3%	0.4	1.6%	0.5	1.8%
<b>Gross Liquidation Proceeds</b>				<b>71.4</b>		<b>78.5</b>		<b>85.6</b>	
Liquidation Expenses	(7)								
Wind Down Costs		-	-	(3.5)		(4.4)		(5.3)	
Trustee ☐ Receiver Fees		3.0		(2.1)		(2.4)		(2.6)	
Counsel for Trustee		-	-	-		-		-	
Commission on Equipment Sale		5.0		(3.2)		(3.5)		(3.8)	
Professional Fees		-	-	-		-		-	
<b>Total Liquidation Expenses</b>				<b>(8.9)</b>		<b>(10.3)</b>		<b>(11.7)</b>	
<b>Proceeds Available for Distribution</b>				<b>62.5</b>		<b>68.2</b>		<b>73.9</b>	
	Notes	Book Value	Market Value	ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				\$	%	\$	%	\$	%
Post-Petition Secured Debt	(8)								
Professional Fee Carve-Out		-	-	-		-		-	
BMO DIP Secured Claim		-	-	-		-		-	
<b>Total Post-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Pre-Petition Secured Debt	(9)								
BMO Secured Debt		-	-	-		-		-	
BMO LCs		-	-	-		-		-	
CoBank Secured Debt		-	-	-		-		-	
Accrued Interest (excluding default)		-	-	-		-		-	
Other Secured Debt		-	-	-		-		-	
<b>Total Pre-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Administrative Expenses	(10)								
503(b)(9) Claims		0.4							
Post-petition AP		5.0							
Post-petition Accrued Liabilities		7.7							
<b>Total Administrative Expenses</b>		<b>13.0</b>		<b>13.0</b>	<b>100.0%</b>	<b>13.0</b>	<b>100.0%</b>	<b>13.0</b>	<b>100.0%</b>
Priority Claims	(11)								
Priority Taxes		-	-	-		-		-	
Other Priority Claims		-	-	-		-		-	
<b>Total Priority Claims</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Unsecured Debt	(12)								
Pre-petition AP		3.4							
Employee Severance		4.3							
Accrued Default Interest		-	-	-		-		-	
Rejection Claims		-	-	-		-		-	
Contingent ☐ Lawsuit Claims		-	-	-		-		-	
Deferred Benefit Claims		-	-	-		-		-	
Pension Claims		-	-	-		-		-	
Intercompany Claims		14.2							
Senior Unsecured Bonds		-	-	-		-		-	
Junior Unsecured Bonds		-	-	-		-		-	
<b>Total Unsecured Debt</b>		<b>22.0</b>		<b>22.0</b>	<b>100.0%</b>	<b>22.0</b>	<b>100.0%</b>	<b>22.0</b>	<b>100.0%</b>
<b>Excess Proceeds to PPC</b>	(13)			<b>27.5</b>		<b>33.2</b>		<b>38.9</b>	

**PPC Transportation Company**  
**Orderly Liquidation Analysis**

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
<b>Cash</b>	(1)	-	-	-	100.0%	-	100.0%	-	100.0%
<b>Accounts Receivable</b>	(2)	-	-	-	-	-	-	-	-
Current		-	-	-	93.0%	-	95.0%	-	98.0%
1 to 15 days past due		-	-	-	90.0%	-	92.0%	-	95.0%
16 - 30 days past due		-	-	-	80.0%	-	85.0%	-	90.0%
31 - 45 days past due		-	-	-	60.0%	-	70.0%	-	80.0%
46 - 60 days past due		-	-	-	45.0%	-	55.0%	-	65.0%
Over 60 days past due		-	-	-	0.0%	-	15.0%	-	35.0%
<b>Total Trade AR</b>		-	-	-	0.0%	-	0.0%	-	0.0%
Plus: Other AR		-	-	-	0.0%	-	10.0%	-	15.0%
Plus: Affiliate AR		-	-	-	100.0%	-	100.0%	-	100.0%
Less: AR Adjustments		-	-	-	-	-	-	-	-
<b>Total Recoverable AR</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Inventory</b>	(3)	-	-	-	-	-	-	-	-
Finished Meat Inventory		-	-	-	85.0%	-	90.0%	-	95.0%
WIP Inventory		-	-	-	70.0%	-	75.0%	-	80.0%
Plant Supplies		4.7	4.7	2.3	50.0%	2.6	55.0%	2.8	60.0%
Packaging ☐ Supplies		-	-	-	50.0%	-	55.0%	-	60.0%
Other Supplies ☐ Inventory		-	-	-	50.0%	-	55.0%	-	60.0%
<b>Total Recoverable Inventory</b>		4.7	4.7	2.3	50.0%	2.6	55.0%	2.8	60.0%
<b>Other Assets</b>	(4)	-	-	-	-	-	-	-	-
Deposits		0.0	0.0	0.0	95.0%	0.0	98.0%	0.0	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		0.0	0.0	0.0	65.0%	0.0	75.0%	0.0	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		0.0	0.0	0.0	78.1%	0.0	85.0%	0.0	91.5%
<b>Fixed Assets</b>	(5)	-	-	-	-	-	-	-	-
Property, Plant ☐ Equipment		2.8	2.8	1.4	50.0%	1.5	55.0%	1.7	60.0%
Rolling Stock		34.0	34.3	17.1	50.0%	18.9	55.0%	20.6	60.0%
Construction		0.3	0.3	-	0.0%	0.0	10.0%	0.0	15.0%
<b>Total Recoverable Fixed Assets</b>		37.0	37.4	18.5	49.6%	20.4	54.7%	22.3	59.7%
<b>Intercompany Accounts</b>	(6)	0.7	0.7	0.1	14.4%	0.1	14.9%	0.1	15.5%
<b>Gross Liquidation Proceeds</b>				21.0		23.1		25.2	
<b>Liquidation Expenses</b>	(7)								
Wind Down Costs				(5.3)		(6.6)		(8.0)	
Trustee ☐ Receiver Fees		3.0		(0.6)		(0.7)		(0.8)	
Counsel for Trustee				-		-		-	
Commission on Equipment Sale		5.0		(0.9)		(1.0)		(1.1)	
Professional Fees				-		-		-	
<b>Total Liquidation Expenses</b>				(6.9)		(8.3)		(9.8)	
<b>Proceeds Available for Distribution</b>				14.1		14.8		15.4	
				ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				\$	%	\$	%	\$	%
<b>Post-Petition Secured Debt</b>	(8)	-	-	-	-	-	-	-	-
Professional Fee Carve-Out		-	-	-	-	-	-	-	-
BMO DIP Secured Claim		-	-	-	-	-	-	-	-
<b>Total Post-Petition Secured Debt</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Pre-Petition Secured Debt</b>	(9)	-	-	-	-	-	-	-	-
BMO Secured Debt		-	-	-	-	-	-	-	-
BMO LCs		-	-	-	-	-	-	-	-
CoBank Secured Debt		-	-	-	-	-	-	-	-
Accrued Interest (excluding default)		-	-	-	-	-	-	-	-
Other Secured Debt		-	-	-	-	-	-	-	-
<b>Total Pre-Petition Secured Debt</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Administrative Expenses</b>	(10)								
503(b)(9) Claims		0.6							
Post-petition AP		3.9							
Post-petition Accrued Liabilities		8.5							
<b>Total Administrative Expenses</b>		12.9		12.9	100.0%	12.9	100.0%	12.9	100.0%
<b>Priority Claims</b>	(11)	-	-	-	-	-	-	-	-
Priority Taxes		-	-	-	-	-	-	-	-
Other Priority Claims		-	-	-	-	-	-	-	-
<b>Total Priority Claims</b>		-	-	-	0.0%	-	0.0%	-	0.0%
<b>Unsecured Debt</b>	(12)								
Pre-petition AP		5.2							
Employee Severance		-							
Accrued Default Interest		-							
Rejection Claims		0.1							
Contingent ☐ Lawsuit Claims		-							
Deferred Benefit Claims		-							
Pension Claims		-							
Intercompany Claims		8.4							
Senior Unsecured Bonds		-							
Junior Unsecured Bonds		-							
<b>Total Unsecured Debt</b>		13.7		1.2	8.9%	1.9	13.6%	2.5	18.2%
<b>Excess Proceeds to PPC</b>	(13)	-	-	-	-	-	-	-	-

## To Ricos Distribution, Ltd.

### Orderly Liquidation Analysis

(US in millions)	Notes	Book Value	Market Value	ESTIMATED RECOVERY SCENARIOS					
				LOW CASE		BASE CASE		HIGH CASE	
				\$	%	\$	%	\$	%
Cash	(1)	(2.2)	(2.2)	(2.2)	100.0%	(2.2)	100.0%	(2.2)	100.0%
Accounts Receivable	(2)								
Current		1.0	1.0	1.0	93.0%	1.0	95.0%	1.0	98.0%
1 to 15 days past due		0.7	0.7	0.6	90.0%	0.6	92.0%	0.7	95.0%
16 - 30 days past due		0.1	0.1	0.1	80.0%	0.1	85.0%	0.1	90.0%
31 - 45 days past due		(0.0)	(0.0)	(0.0)	60.0%	(0.0)	70.0%	(0.0)	80.0%
46 - 60 days past due		0.0	0.0	0.0	45.0%	0.0	55.0%	0.0	65.0%
Over 60 days past due		0.1	0.1	-	0.0%	0.0	15.0%	0.0	35.0%
<b>Total Trade AR</b>		<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>88.6%</b>	<b>1.7</b>	<b>91.0%</b>	<b>1.7</b>	<b>94.6%</b>
Plus: Other AR		-	-	-	0.0%	-	10.0%	-	15.0%
Plus: Affiliate AR		-	-	-	100.0%	-	100.0%	-	100.0%
Less: AR Adjustments		(0.1)	(0.1)	(0.1)		(0.1)		(0.1)	
<b>Total Recoverable AR</b>		<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>88.2%</b>	<b>1.6</b>	<b>90.7%</b>	<b>1.7</b>	<b>94.4%</b>
Inventory	(3)								
Finished Meat Inventory		0.9	0.7	0.6	85.0%	0.6	90.0%	0.7	95.0%
WIP Inventory		-	-	-	70.0%	-	75.0%	-	80.0%
Plant Supplies		-	-	-	50.0%	-	55.0%	-	60.0%
Packaging & Ingredients		-	-	-	50.0%	-	55.0%	-	60.0%
Other Supplies & Inventory		-	-	-	50.0%	-	55.0%	-	60.0%
<b>Total Recoverable Inventory</b>		<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>85.0%</b>	<b>0.6</b>	<b>90.0%</b>	<b>0.7</b>	<b>95.0%</b>
Other Assets	(4)								
Deposits		-	-	-	95.0%	-	98.0%	-	100.0%
Legal Retainers		-	-	-	95.0%	-	98.0%	-	100.0%
Prepaid Expenses		0.2	0.2	0.1	65.0%	0.2	75.0%	0.2	85.0%
Life Insurance CSV		-	-	-	65.0%	-	75.0%	-	85.0%
Investments		-	-	-	0.0%	-	10.0%	-	15.0%
Intangibles		-	-	-	0.0%	-	10.0%	-	15.0%
<b>Total Recoverable Other Assets</b>		<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>65.0%</b>	<b>0.2</b>	<b>75.0%</b>	<b>0.2</b>	<b>85.0%</b>
Fixed Assets	(5)								
Property, Plant & Equipment		0.0	0.0	0.0	50.0%	0.0	55.0%	0.0	60.0%
Rolling Stock		0.1	0.1	0.0	50.0%	0.0	55.0%	0.0	60.0%
Construction		0.3	0.3	-	0.0%	0.0	10.0%	0.0	15.0%
<b>Total Recoverable Fixed Assets</b>		<b>0.4</b>	<b>0.4</b>	<b>0.1</b>	<b>13.8%</b>	<b>0.1</b>	<b>22.4%</b>	<b>0.1</b>	<b>27.4%</b>
Intercompany Accounts	(6)	114.8	114.8	2.2	1.9%	2.2	1.9%	2.2	1.9%
<b>Gross Liquidation Proceeds</b>				<b>2.3</b>		<b>2.5</b>		<b>2.6</b>	
Liquidation Expenses	(7)								
Wind Down Costs		-	-	-	-	-	-	-	-
Trustee & Receiver Fees		3.0	-	(0.1)	-	(0.1)	-	(0.1)	-
Counsel for Trustee		-	-	-	-	-	-	-	-
Commission on Equipment Sale		5.0	-	(0.0)	-	(0.0)	-	(0.0)	-
Professional Fees		-	-	-	-	-	-	-	-
<b>Total Liquidation Expenses</b>				<b>(0.1)</b>		<b>(0.1)</b>		<b>(0.1)</b>	
<b>Proceeds Available for Distribution</b>				<b>2.3</b>		<b>2.4</b>		<b>2.5</b>	
	Notes	Book Value	Market Value	ESTIMATED DISTRIBUTION ACCORDING TO ABSOLUTE PRIORITY					
				\$	%	\$	%	\$	%
Post-Petition Secured Debt	(8)								
Professional Fee Carve-Out		-	-	-	-	-	-	-	-
BMO DIP Secured Claim		-	-	-	-	-	-	-	-
<b>Total Post-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Pre-Petition Secured Debt	(9)								
BMO Secured Debt		-	-	-	-	-	-	-	-
BMO LCs		-	-	-	-	-	-	-	-
CoBank Secured Debt		-	-	-	-	-	-	-	-
Accrued Interest (excluding default)		-	-	-	-	-	-	-	-
Other Secured Debt		-	-	-	-	-	-	-	-
<b>Total Pre-Petition Secured Debt</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Administrative Expenses	(10)								
503(b)(9) Claims		0.0	-	-	-	-	-	-	-
Post-petition AP		(0.0)	-	-	-	-	-	-	-
Post-petition Accrued Liabilities		0.1	-	-	-	-	-	-	-
<b>Total Administrative Expenses</b>		<b>0.1</b>		<b>0.1</b>	<b>100.0%</b>	<b>0.1</b>	<b>100.0%</b>	<b>0.1</b>	<b>100.0%</b>
Priority Claims	(11)								
Priority Taxes		-	-	-	-	-	-	-	-
Other Priority Claims		-	-	-	-	-	-	-	-
<b>Total Priority Claims</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>
Unsecured Debt	(12)								
Pre-petition AP		0.1	-	-	-	-	-	-	-
Employee Severance		0.0	-	-	-	-	-	-	-
Accrued Default Interest		-	-	-	-	-	-	-	-
Rejection Claims		-	-	-	-	-	-	-	-
Contingent & Lawsuit Claims		-	-	-	-	-	-	-	-
Deferred Benefit Claims		-	-	-	-	-	-	-	-
Pension Claims		-	-	-	-	-	-	-	-
Intercompany Claims		114.8	-	-	-	-	-	-	-
Senior Unsecured Bonds		-	-	-	-	-	-	-	-
Junior Unsecured Bonds		-	-	-	-	-	-	-	-
<b>Total Unsecured Debt</b>		<b>114.9</b>		<b>2.2</b>	<b>1.9%</b>	<b>2.3</b>	<b>2.0%</b>	<b>2.4</b>	<b>2.1%</b>
<b>Excess Proceeds to PPC</b>	(13)			<b>-</b>		<b>-</b>		<b>-</b>	



**EXHIBIT H**

**The Organizational Chart**

**Pilgrim's Pride Corporation  
Legal Entity Organizational Chart**

**Pilgrim's Pride Corporation  
(Delaware)**

