

PILGRIMS PRIDE CORP
Form 10-Q
October 29, 2010
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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 September 26, 2010

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

75-1285071
(I.R.S. Employer
Identification No.)

1770 Promontory Circle, Greeley, CO
(Address of principal executive offices)

80634-9038
(Zip code)

Registrant's telephone number, including area code: (970) 506-8000

(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

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 outstanding of the issuer's common stock, as of October 29, 2010, was 214,281,914.

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EXHIBIT INDEX

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PILGRIM S PRIDE CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 26, 2010	September 26, 2009
	(In thousands)	
Assets:		
Cash and cash equivalents	\$ 46,213	\$ 220,029
Investment in available-for-sale securities	8,800	5,302
Trade accounts and other receivables, less allowance for doubtful accounts	354,837	316,953
Inventories	910,625	763,869
Income taxes receivable	53,872	15,028
Prepaid expenses and other current assets	63,490	44,540
Assets held for sale	59,218	473
Total current assets	1,497,055	1,366,194
Investment in available-for-sale securities	56,235	57,314
Deferred tax assets		16,732
Other long-lived assets	70,626	63,609
Identified intangible assets, net	50,371	57,179
Property, plant and equipment, net	1,343,694	1,499,476
	\$ 3,017,981	\$ 3,060,504
Liabilities and stockholders equity:		
Accounts payable	\$ 271,187	\$ 182,173
Accounts payable to JBS USA, LLC	19,359	
Accrued expenses	276,506	309,259
Pre-petition obligations	1,736	
Income taxes payable	16,549	
Current deferred tax liabilities	15,276	16,732
Current maturities of long-term debt	75,355	
Total current liabilities	675,968	508,164
Long-term debt, less current maturities	1,166,606	41,062
Deferred tax liabilities	50,646	22,213
Other long-term liabilities	88,522	98,783
Total liabilities not subject to compromise	1,981,742	670,222
Liabilities subject to compromise		2,233,161
Common stock	2,143	771
Additional paid-in capital	1,442,810	646,793
Accumulated deficit	(390,497)	(469,407)

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Accumulated other comprehensive loss	(23,572)	(27,237)
Total Pilgrim s Pride Corporation stockholders equity	1,030,884	150,920
Noncontrolling interest	5,355	6,201
Total stockholders equity	1,036,239	157,121
	\$ 3,017,981	\$ 3,060,504

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PILGRIM S PRIDE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands, except per share data)			
Net sales	\$ 1,719,850	\$ 1,736,149	\$ 5,070,336	\$ 5,211,064
Costs and expenses:				
Cost of sales	1,560,031	1,560,934	4,726,007	4,791,630
Operational restructuring charges, net	2,525	12,464	2,525	12,464
Gross profit	157,294	162,751	341,804	406,970
Selling, general and administrative expense	45,096	46,086	157,415	161,864
Administrative restructuring charges, net	(1,006)		51,695	(435)
Total costs and expenses	1,606,646	1,619,484	4,937,642	4,965,523
Operating income	113,204	116,665	132,694	245,541
Other expenses (income):				
Interest expense	26,492	37,074	81,027	122,361
Interest income	(646)	(543)	(1,820)	(3,855)
Miscellaneous, net	(1,676)	709	(8,505)	(2,231)
Total other expenses	24,170	37,240	70,702	116,275
Income from continuing operations before reorganization items and income taxes	89,034	79,425	61,992	129,266
Reorganization items, net		21,891	18,541	74,025
Income from continuing operations before income taxes	89,034	57,534	43,451	55,241
Income tax expense (benefit)	30,512	(24,766)	(4,295)	(21,864)
Income from continuing operations	58,522	82,300	47,746	77,105
Income from discontinued business, net of tax				25
Net income	58,522	82,300	47,746	77,130
Less: Net income (loss) attributable to noncontrolling interest	596	(425)	2,449	(69)
Net income attributable to Pilgrim s Pride Corporation	\$ 57,926	\$ 82,725	\$ 45,297	\$ 77,199
Net income per common share basic:				
Income from continuing operations attributable to Pilgrim s Pride Corporation common stockholders	\$ 0.27	\$ 1.12	\$ 0.21	\$ 1.04
Income from discontinued business attributable to Pilgrim s Pride Corporation common stockholders				

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Net income attributable to Pilgrim s Pride Corporation common stockholders	\$	0.27	\$	1.12	\$	0.21	\$	1.04
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Net income per common share diluted:

Income from continuing operations attributable to Pilgrim s Pride Corporation common stockholders	\$	0.27	\$	1.07	\$	0.21	\$	1.00
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Income from discontinued business attributable to Pilgrim s Pride Corporation common stockholders								
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Net income attributable to Pilgrim s Pride Corporation common stockholders	\$	0.27	\$	1.07	\$	0.21	\$	1.00
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PILGRIM S PRIDE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands, except per share data)			
Weighted average shares outstanding:				
Basic	214,282	74,056	214,282	74,056
Effect of dilutive common stock equivalents		3,086		2,747
Diluted	214,282	77,141	214,282	76,802
Amounts attributable to Pilgrim s Pride Corporation common stockholders:				
Income from continuing operations, net of tax	\$ 57,926	\$ 82,725	\$ 45,297	\$ 77,174
Income from discontinued business, net of tax				25
Net income	\$ 57,926	\$ 82,725	\$ 45,297	\$ 77,199

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**PILGRIM S PRIDE CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands, except per share data)			
Net income	\$ 58,522	\$ 82,300	\$ 47,746	\$ 77,130
Other comprehensive income:				
Unrealized holding gains on available-for-sale securities, net of tax	285	1,275	390	2,470
Recognition in earnings of a previously unrecognized gain (loss) on a derivative instrument designated as a cash flow hedge, net of tax		(199)	(2,565)	(377)
Gains (losses) associated with pension and other postretirement benefits, net of tax	26	(49,638)	5,869	(50,667)
Total other comprehensive income (loss), net of tax	311	(48,562)	3,694	(48,574)
Comprehensive income	58,833	33,738	51,440	28,556
Less: Comprehensive income (loss) attributable to noncontrolling interests	596	(425)	2,449	(69)
Comprehensive income attributable to Pilgrim s Pride Corporation	\$ 58,237	\$ 34,163	\$ 48,991	\$ 28,625

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PILGRIM S PRIDE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Unaudited)

	Pilgrim s Pride Corporation Stockholders							
	Total	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (In thousands)	Shares	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Consolidated Subsidiaries
Balance at September 26, 2009	\$ 157,121	\$	\$ (469,407)	\$ (27,237)	77,141	\$ 771	\$ 646,793	\$ 6,201
Comprehensive income (loss):								
Net income	33,925	33,613	33,613					312
Other comprehensive income (loss), net of tax:								
Net unrealized holding gains on available-for-sale securities, net of tax	41	41		41				
Recognition in earnings of a previously unrealized gain on a derivative instrument designated as a cash flow hedge, net of tax	(139)	(139)		(139)				
Gains associated with pension and other postretirement benefits	69	69		69				
Total other comprehensive loss	(29)	(29)						
Total comprehensive income	33,896	33,584						
Share-based payments	1,790						1,790	
Other activity	1							1
Balance at December 27, 2009	192,808		(435,794)	(27,266)	77,141	771	648,583	6,514
Comprehensive income (loss):								
Net income	47,746	45,297	45,297					2,449
Other comprehensive income (loss), net of tax:								
Net unrealized holding gains on available-for-sale securities, net of tax	390	390		390				
Recognition in earnings of a previously unrealized gain on a derivative instrument designated as a cash flow hedge, net of tax	(2,565)	(2,565)		(2,565)				
Gains associated with pension and other postretirement benefits, net of tax	5,869	5,869		5,869				
Total other comprehensive income	3,694	3,694						
Total comprehensive income	51,440	48,991						
Common stock issued	800,000				137,141	1,372	798,628	
Other activities	(8,009)						(4,401)	(3,608)
Balance at September 26, 2010	\$ 1,036,239		\$ (390,497)	\$ (23,572)	214,282	\$ 2,143	\$ 1,442,810	\$ 5,355

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The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**PILGRIM S PRIDE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended	
	September 26, 2010	September 26, 2009
	(In thousands)	
Cash flows from operating activities:		
Net income attributable to Pilgrim s Pride Corporation	\$ 45,297	\$ 77,199
Adjustments to reconcile net income attributable to Pilgrim s Pride Corporation to cash provided by operating activities:		
Depreciation and amortization	175,397	175,847
Asset impairment	15,231	5,409
Noncash loss on early extinguishment of debt	13,654	
Gain on property disposals	(3,057)	(26,302)
Deferred income tax benefit	(11,705)	(21,478)
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	5,072	(3,405)
Trade accounts and other receivables	(42,566)	32,154
Inventories	(168,178)	17,003
Prepaid expenses and other current assets	(27,758)	7,421
Accounts payable and accrued expenses	(146,603)	(93,903)
Income taxes receivable, net	111,606	(1,728)
Deposits	55,447	
Other	471	16,389
Cash provided by operating activities	22,308	184,606
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(109,037)	(59,165)
Purchases of investment securities	(9,377)	(14,329)
Proceeds from sale or maturity of investment securities	9,649	14,355
Proceeds from property disposals	11,581	85,004
Cash provided by (used in) investing activities	(97,184)	25,865
Cash flows from financing activities:		
Proceeds from short-term notes payable		196,100
Payments on short-term notes payable		(297,292)
Proceeds from long-term debt	1,652,700	5,186
Payments on long-term debt	(2,508,549)	(25,199)
Proceeds from sale of common stock	800,000	
Change in outstanding cash management obligations		104,133
Purchase of remaining interest in subsidiary	(7,637)	
Payment of capitalized loan costs	(49,981)	
Other financing activities	(353)	(1,239)
Cash used in financing activities	(113,820)	(18,311)
Effect of exchange rate changes on cash and cash equivalents	(1,391)	(4,776)
Increase (decrease) in cash and cash equivalents	(190,087)	187,384

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Cash and cash equivalents, beginning of period	236,300	32,645
Cash and cash equivalents, end of period	\$ 46,213	\$ 220,029

The accompanying notes are an integral part of these Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BUSINESS AND CHAPTER 11 PROCEEDINGS

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 throughout 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 approximately 90 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 15 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.

Chapter 11 Bankruptcy Filings and Proceedings

Background

On December 1, 2008 (the Petition Date), Pilgrim s Pride Corporation and six 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The Plan and Emergence

On December 10, 2009, the Bankruptcy Court entered an order (the Confirmation Order) approving and confirming the Joint Plan of Reorganization filed by the Debtors under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court, along with the Disclosure Statement for the Debtors' Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code (as amended and supplemented, the Plan). The Plan provided for a reorganization of the Debtors' businesses as a going concern. The Plan was premised on (i) a transaction with JBS USA Holdings, Inc. (the Plan Sponsor or JBS USA) whereby, pursuant to the SPA (defined below), the Plan Sponsor would purchase 64.0% of the common stock of the reorganized Company (Reorganized PPC) in exchange for \$800.0 million in cash, to be used by the Debtors to, among other things, fund distributions to holders of allowed claims under the Plan, and (ii) the Debtors entering into a new credit facility having an aggregate commitment of up to \$1.75 billion (as described below, the Exit Credit Facility). In connection with the Plan, all holders of allowed claims will be paid in full unless otherwise agreed by the applicable holder, provided that the Plan contemplates that 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 Notes) issued under the Company's outstanding indentures would be reinstated unless and to the extent a holder of the notes elected to receive a cash payment equal to the principal amounts of the notes plus unpaid pre-petition interest, with interest accruing on such unpaid interest at the default contract rate through the date on which we emerged from Chapter 11 bankruptcy proceedings, December 28, 2009 (the Effective Date), and the accrued unpaid post-petition interest on the principal amount of the notes at the non-default contract rate through the Effective Date.

Pursuant to the Plan and the Confirmation Order, the following agreements were terminated on the Effective Date: (i) the Amended and Restated Post-Petition Credit Agreement dated as of December 31, 2008, among the Company and certain of its subsidiaries, Bank of Montreal, as the DIP Agent, and the lenders party thereto, as amended (the DIP Credit Agreement), (ii) 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 (the Pre-petition BMO Facility), and (iii) the Amended and Restated Credit Agreement, dated September 21, 2006, among the Company, CoBank, as agent, and the lenders party thereto, as amended (the Pre-petition CoBank Facility) and together with the DIP Credit Agreement and the Pre-petition BMO Facility, the Prior Secured Credit Facilities). The proceeds of the Exit Credit Facility were used to repay the amounts outstanding under the Prior Secured Credit Facilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The Acquisition

On the Effective Date, the Company's common stock outstanding immediately prior to the effectiveness of the Plan was cancelled and converted into the right to receive shares of common stock, par value \$0.01 per share, of Reorganized PPC based on a one-for-one exchange ratio, which constituted 36.0% of the total number of shares of common stock of Reorganized PPC issued pursuant to the Plan. The remaining shares of common stock of Reorganized PPC, constituting 64.0% of the total issued pursuant to the Plan and outstanding on the Effective Date, were issued to the Plan Sponsor, a wholly-owned indirect subsidiary of JBS S.A., a Brazil-based meat producer, for \$800.0 million in cash pursuant to the terms and condition of a Stock Purchase Agreement (the "SPA") entered into by the Company and the Plan Sponsor on September 16, 2009, as amended (the "Acquisition"). Proceeds from the sale of the common stock of Reorganized PPC to JBS USA were used to fund cash distributions to unsecured creditors. Effective December 29, 2009, the NYSE listed the common stock of Reorganized PPC and it is now quoted under the ticker symbol PPC.

In connection with the closing of the Acquisition, the Company entered into a stockholders agreement with JBS USA (the "Stockholders Agreement"), adopted and filed an Amended and Restated Certificate of Incorporation (the "Restated Certificate of Incorporation") and adopted Amended and Restated Corporate Bylaws (the "Restated Bylaws"). The Stockholders Agreement and the Restated Certificate of Incorporation govern the constitution of the Company's board of directors and the selection of its members. The Stockholders Agreement, among other things, also restricts the ability of JBS USA to purchase shares of the common stock of Reorganized PPC, requires the approval of the Company's stockholders with respect to specified amendments to the Restated Certificate of Incorporation and Restated Bylaws and requires JBS USA to use commercially reasonable efforts to maintain the listing of the common stock of Reorganized PPC on a national securities exchange. Among other rights, the Restated Certificate of Incorporation provides that, if JBS USA completes an initial public offering of its common stock, then JBS USA has the right to exchange all of the outstanding common stock of Reorganized PPC for JBS USA common stock. For a period beginning upon the completion of such offering and ending two years and 30 days after the effective date of the Plan, JBS USA may exercise this exchange right during limited exchange windows in each fiscal quarter beginning six trading days after both Reorganized PPC and JBS USA have made their respective periodic reports or earnings releases for the preceding quarter or year, as applicable, and ending on the last day of the fiscal quarter during which the report or release was made. The number of shares of JBS USA common stock to be issued in exchange for the Reorganized PPC common stock will be dependent upon the relative average volume-weighted daily trading prices per share of the common stock of Reorganized PPC and the JBS USA common stock during the period immediately preceding the time JBS USA exercises its exchange right.

Exit Credit Facility

Upon exiting from bankruptcy on December 28, 2009, the Company and certain of its subsidiaries entered into the Exit Credit Facility, which provides for an aggregate commitment of \$1.75 billion. See Note 10. Long-Term Debt and Other Borrowing Arrangements for additional information on the DIP Credit Agreement and the Exit Credit Facility.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Financial Reporting Considerations**

The emergence from bankruptcy did not qualify for fresh start accounting as the reorganization value of the Company upon emergence exceeded post-petition liabilities and allowed claims. The acquisition of a controlling interest in the Company by JBS USA did not qualify for push down accounting as JBS USA only purchased 64.0% of the common stock of Reorganized PPC. Thus, there was not a revaluation of the Company's assets and liabilities related to the Company's emergence from bankruptcy.

Between the Petition Date and through September 26, 2010, the Company applied Accounting Standards Codification (ASC) Topic 852, *Reorganizations*, in preparing the Consolidated Financial Statements. ASC Topic 852 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, net* on the accompanying Consolidated Statements of Operations. In addition, pre-petition obligations that were impacted by the bankruptcy reorganization process were classified on the Consolidated Balance Sheet at September 26, 2009 in *Liabilities subject to compromise*.

The Debtors' reorganization items consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands)		(In thousands)	
Professional fees (fee reductions) directly related to reorganization ^(a)	\$	\$ (407)	\$ 2,785	\$ 29,141
Finance costs related to various credit facilities ^(b)			13,654	4,500
Net gain on asset disposal ^(c)		(3,617)		(15,850)
Other costs (credits) ^(d)		25,915	2,102	56,234
Reorganization items, net	\$	\$ 21,891	\$ 18,541	\$ 74,025

- (a) *Professional fees (fee reductions) directly related to the reorganization* included post-petition fees and fee reductions associated with advisors to the Debtors, the statutory committee of unsecured creditors and certain secured creditors. Professional fees are estimated by the Debtors and continue to be reconciled to actual invoices when received.
- (b) For the nine months ended September 26, 2010, *Finance costs related to various credit facilities* included expenses related to the elimination of unamortized loan cost associated with the Prior Secured Credit Facilities and the Unsecured Notes and the recognition in earnings of a previously unrealized gain on a derivative instrument designated as a cash flow hedge associated with the Unsecured Notes. For the nine months ended September 26, 2009, *Finance costs related to various credit facilities* included finance costs related to the DIP Credit Agreement.
- (c) Net gain on asset disposal includes (i) a gain on the sale of the Farmerville, Louisiana processing facility, (ii) a gain recognized on the sale of undeveloped land in Camp County, Texas, and (iii) a loss recognized on the sale of the Company's interest in a hog farming joint venture.
- (d) *Other costs (credits)* included costs and credits related to post-petition facility closures.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Net cash paid for reorganization items during the nine months ended September 26, 2010 totaled \$30.7 million. This represented payment of incentive compensation totaling \$13.0 million that was contingent upon confirmation by the Bankruptcy Court of a plan of reorganization that satisfied the requirements of the Bankruptcy Code, professional fees directly related to the reorganization totaling \$15.7 million, severance payments of \$1.5 million and payment of facility closure costs totaling \$0.5 million. Net cash paid for reorganization items during the nine months ended September 26, 2009 totaled \$44.1 million. This represented payment of professional fees directly related to the reorganization totaling \$25.4 million, payment of DIP Credit Agreement related expenses totaling \$4.5 million, severance payments of \$8.6 million and payment of facility closure costs totaling \$5.6 million. These cash flows are included in *Cash flows from operating activities* on the Consolidated Statements of Cash Flows.

For additional information on (i) costs related to our closure of seven processing facilities/complexes and one distribution center between the Petition Date and the Effective Date and (ii) severance costs related to the reduction-in-force actions and the reduction or consolidation of production at various facilities that occurred between the Petition Date and the Effective Date, see Note 3. Exit or Disposal Activities.

The Company resolved a majority of the claims against it through settlement or by Bankruptcy Court order resulting in benefits of \$0.7 million and \$7.3 million that are reflected in *Miscellaneous, net* on the Consolidated Statements of Operations for the three and nine months ended September 26, 2010, respectively. The claims resolution process continues for the remaining unresolved claims and will continue until all claims are concluded. Prior to the Effective Date, estimated claims were presented as *Liabilities subject to compromise* in the Consolidated Balance Sheets because of the uncertainty of the eventual settlement amounts. Due to the Plan becoming effective and the claims reconciliation process being substantially complete with respect to claims not subject to litigation, there is little uncertainty as to the total amount to be distributed under the Plan with respect to these claims. As such, pre-petition obligations after the Effective Date are no longer presented as subject to compromise. The unpaid amounts are now classified as *Pre-petition obligations*. During the nine months ended September 26, 2010, the Company paid creditors, excluding creditors under the Prior Secured Credit Facilities and the Unsecured Notes, for allowed claim amounts totaling approximately \$89.0 million. As of September 26, 2010, the following pre-petition obligations relating to claims not subject to litigation remain outstanding (in thousands):

Trade claims	\$ 970
Interest accrued on unpaid claims	766
Total pre-petition obligations	\$ 1,736

The Company is also the named defendant in several pre-petition lawsuits that, as of September 26, 2010, have not been resolved. See Note 14. Commitments and Contingencies for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. BASIS OF PRESENTATION

Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of the Company 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 (SEC). 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 nine months ended September 26, 2010, are not necessarily indicative of the results that may be expected for the year ending December 26, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 26, 2009.

On December 28, 2009, the Company adopted the Restated Bylaws, which changed the Company's fiscal year end from the Saturday nearest September 30 of each year to the last Sunday in December of each year. This change aligns the Company's reporting cycle with the fiscal calendar of JBS USA. The change was effective with the Company's 2010 fiscal year, which began on September 27, 2009 and will end on December 26, 2010 and resulted in an approximate three-month transition period which began September 27, 2009 and ended December 27, 2009. The Company now operates on the basis of a 52/53-week fiscal year that ends on the Sunday falling on or before December 31. The reader should assume any reference we make to a particular year (for example, 2010) in this report applies to our fiscal year and not the calendar year.

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 was the functional currency. Accordingly, we re-measure assets and liabilities, other than non-monetary assets, of the Mexican subsidiaries at current exchange rates. We re-measure non-monetary assets using the historical exchange rate in effect on the date of each asset's acquisition. We re-measure income and expenses at average exchange rates in effect during the period. Currency exchange gains or losses are included in the line item *Miscellaneous, net* in the Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Recently Adopted Accounting Pronouncements

On September 27, 2009, the Company adopted guidance under ASC Topic 805, *Business Combinations*, that establishes 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. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. Adoption of the subject guidance under ASC Topic 805 will impact any future business combinations that occur on or after the adoption date. The Company will evaluate the impact of the subject guidance as each business combination is consummated.

On September 27, 2009, the Company adopted guidance under ASC Subtopic 810-10, *Consolidation-Overall*, that establishes standards for how a 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 has retroactively reclassified the noncontrolling interests in certain subsidiaries, none of which are material to the Company's operations. Accordingly, the adoption of the subject guidance under ASC Subtopic 810-10 did not have a material impact on the Company's consolidated financial statements.

On September 27, 2009, the Company adopted guidance under ASC Subtopic 715-20, *Compensation-Retirement Benefits-Defined Benefit Plans-General*, that establishes standards for an employer's disclosures about 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. Adoption of the subject guidance under ASC Subtopic 715-20 will impact future Company disclosures about assets of its defined benefit pension or other postretirement plans. The Company will evaluate the impact of the subject guidance at the time the applicable disclosure is required. The Company does not currently expect that the adoption of the subject guidance will have a material impact on its consolidated financial statements.

On September 27, 2009, the Company adopted Accounting Standards Update (ASU) 2009-05, *Measuring Liabilities at Fair Value*, which provides amendments to ASC Subtopic 820-10, *Fair Value Measurements and Disclosures-General*, for the fair value measurement of liabilities and clarifies the techniques required to measure fair value when a quoted price in an active market for the identical liability is not available. The adoption of the subject guidance under ASC Subtopic 820-10 did not have a material impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

On December 28, 2009, the Company adopted a portion of ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which provides amendments to ASC Subtopic 820-10 that require new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The adoption of the subject guidance under ASC Subtopic 820-10 did not have a material impact on the Company's consolidated financial statements. ASU 2010-06 also provides amendments to ASC Subtopic 820-10 that will require new disclosures regarding activity in Level 3 fair value measurements. The new disclosures regarding activity in Level 3 fair value measurements will be applied effective December 27, 2010. The Company does not expect the adoption of the subject guidance under ASC 820-10 will have a material impact on its consolidated financial statements.

3. EXIT OR DISPOSAL ACTIVITIES

From February 2008 through September 2010, the Company completed the following exit or disposal activities:

Closed ten processing facilities/complexes and eight distribution centers,

Sold one closed processing complex and four closed distribution centers,

Reduced or consolidated production at various other processing facilities/complexes,

Closed two administrative office buildings, and

Reduced its workforce by approximately 860 non-production positions.

Significant activities that occurred between the Petition Date and the Effective Date were approved by the Bankruptcy Court, when required under the Bankruptcy Code, as part of the Company's reorganization efforts. To date, these exit or disposal activities have eliminated approximately 12,801 positions and resulted in net charges totaling \$83.0 million.

Results of operations for the three months ended September 26, 2010 and September 26, 2009 included exit or disposal costs totaling \$4.0 million and \$20.2 million, respectively. Results of operations for the nine months ended September 26, 2010 and September 26, 2009 included exit or disposal costs totaling \$41.9 million and \$36.0 million, respectively. All exit or disposal costs, with the exception of costs related to lease obligations and inventory reserves related to closed facilities, have resulted in cash expenditures or will result in cash expenditures within one year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Results of operations for the three months ended September 26, 2010 and September 26, 2009 also included adjustments totaling \$10.1 million and \$2.1 million, respectively, which reduced the accrued costs. Adjustments recognized in the third quarter of 2010 included favorable adjustments to incentive compensation and related excise taxes upon finalization of an incentive plan analysis as well as the elimination of accrued severance and other exit or disposal costs at the culmination of the related exit or disposal period. Results of operations for the nine months ended September 26, 2010 and September 26, 2009 also included adjustments totaling \$11.1 million and \$8.3 million, respectively, which reduced the accrued costs. These adjustments included the elimination of accrued severance and other exit or disposal costs at the culmination of the related exit or disposal period. These adjustments also included the assumption of a lease obligation related to our closed administrative office by an outside party.

Exit or disposal costs totaling \$2.5 million and \$12.4 million recognized during the nine months ended September 26, 2010 and September 26, 2009, respectively, were classified as *Operational restructuring charges*, a component of gross profit, because management believes these costs are directly related to the Company's ongoing production activities. Exit or disposal costs totaling \$51.7 million recognized during the nine months ended September 26, 2010 were classified as *Administrative restructuring charges*, a component of operating income below gross profit, because management believes these costs were not directly related to the Company's ongoing production. Exit or disposal costs totaling \$25.9 million and \$56.2 million incurred during the nine months ended September 26, 2010 and September 26, 2009, respectively, were classified as reorganization items.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following table sets forth activity that was recorded through the Company's accrued exit or disposal cost accounts during the nine months ended September 26, 2010:

	Accrued Lease Obligation	Accrued Severance	Accrued Other Exit or Disposal Costs (In thousands)	Inventory Reserves	Total
	\$	\$	\$	\$	\$
September 29, 2007					
Accruals	4,778	4,000	7,378	2,021	18,177
Payment/Disposal	(312)	(1,306)	(1,727)	(806)	(4,151)
Adjustments				(3)	(3)
September 27, 2008	4,466	2,694	5,651	1,212	14,023
Accruals		17,830	7,667	5,029	30,526
Payment/Disposal	(622)	(12,876)	(2,753)	(4,775)	(21,026)
Adjustments	(2,202)	(4,305)	(2,454)	(212)	(9,173)
September 26, 2009	1,642	3,343	8,111	1,254	14,350
Accruals		833		741	1,574
Payment/Disposal	(86)	(2,393)	(5,608)	(92)	(8,179)
Adjustments	(1,536)	(522)	1,111		(947)
December 27, 2009	20	1,261	3,614	1,903	6,798
Accruals		23,832	9,869	2,118	35,819
Payment /Disposal		(20,304)	(155)	(2,631)	(23,090)
Adjustments		(23)			(23)
March 28, 2010	20	4,766	13,328	1,390	19,504
Accruals		2,055			2,055
Payment /Disposal		(3,456)	(900)	(18)	(4,374)
Adjustments	(20)	(33)	(909)		(962)
June 27, 2010		3,332	11,519	1,372	16,223
Accruals		4,036			4,036
Payment /Disposal		(2,425)			(2,425)
Adjustments		(139)	(9,963)		(10,102)
September 26, 2010	\$	\$ 4,804	\$ 1,556	\$ 1,372	\$ 7,732

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Components of operational restructuring charges and administrative restructuring charges are summarized below.

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands)			
Operational restructuring charges:				
Relocation charges expensed as incurred	\$ 2,121	\$	\$ 2,121	\$
Asset impairments (See Note 8 Property, Plant and Equipment)	404		404	
Loss on egg sales and flock depletion expensed as incurred		12,464		12,464
Total	\$ 2,525	\$ 12,464	\$ 2,525	\$ 12,464
Administrative restructuring charges, net:				
Accrued severance provisions (adjustments)	\$ 3,897	\$	\$ 29,784	\$ (435)
Reversal of incentive compensation cost and related excise tax	(9,869)			
Relocation charges expensed as incurred	4,966		4,966	
Asset impairments (See Note 8 Property, Plant and Equipment)			14,827	
Loss on egg sales and flock depletion expensed as incurred			2,118	
Total	\$ (1,006)	\$	\$ 51,695	\$ (435)

On April 12, 2010, the Company announced that it planned to reduce corporate and administrative positions across the organization under the second phase of its integration with JBS USA. As of September 26, 2010 the total planned reduction in workforce under this second phase of integration is approximately 251 positions, of which 190 positions have been eliminated.

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, consolidating operations and functions, employee relocation and voluntary and involuntary employee separation programs. Any such actions may require us to obtain the pre-approval of our lenders under our Exit Credit Facility. In addition, such actions will subject the Company to additional short-term costs, which may include asset impairment charges, lease commitment costs, employee retention and severance costs and other costs. Certain of these activities may have a disproportionate impact on our income relative to the cost savings in a particular period.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****4. FAIR VALUE MEASUREMENT**

The asset (liability) amounts recorded in the Consolidated Balance Sheet (carrying amounts) and the estimated fair values of financial instruments at September 26, 2010 consisted of the following:

	Carrying Amount	Fair Value	Note Reference
	(In thousands)		
Cash and cash equivalents	\$ 46,213	\$ 46,213	
Trade accounts and other receivables	354,837	354,837	5
Derivative trading accounts margin cash ^(a)	2,689	2,689	
Commodity derivative assets ^(a) :			7
Futures	938	938	
Options	17,043	17,043	
Investments in available-for-sale securities	65,035	65,035	7
Long-term restricted cash and cash equivalents ^(b)	5,000	5,000	
Accounts payable and accrued expenses ^(c)	(540,466)	(540,466)	9
Commodity derivative liabilities ^(d) :			7
Futures	(2,475)	(2,475)	
Options	(4,752)	(4,752)	
Public debt obligations ^(e)	3,897	4,678	10
Non-public credit facilities ^(e)	1,238,064	1,258,846	10

- (a) Derivative trading accounts margin cash and commodity derivative assets are included in *Prepaid expenses and other current assets* on the Consolidated Balance Sheet.
- (b) Long-term restricted cash and cash equivalents are included in *Other assets* on the Consolidated Balance Sheet.
- (c) *Accounts payable and accrued expenses* presented above excludes commodity derivative liabilities.
- (d) Commodity derivative liabilities are included in *Accrued expenses* on the Consolidated Balance Sheet.
- (e) The fair values of the Company's public debt obligations and non-public credit facilities were estimated by calculating the net present value of future payments for each public debt obligation or non-public borrowing discounted using the US Treasury interest rate applicable for an instrument with a life similar to the remaining life of each of our public debt obligations or non-public borrowings plus the same interest rate spread applied to each of our public debt obligations and non-public borrowings at inception.

The carrying amounts of our cash and cash equivalents, derivative trading accounts margin cash, 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, commodity derivative assets and commodity derivative liabilities to fair value based on quoted market prices in active markets for identical instruments, quoted market prices in active markets for similar instruments with inputs that are observable for the subject instrument or unobservable inputs such as discounted cash flow models or valuations.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Effective September 28, 2008, the Company adopted guidance under ASC Topic 820, *Fair Value Measurements and Disclosures*, that establishes a framework for measuring fair value and required enhanced disclosures about fair value measurements. The subject guidance under ASC Topic 820 clarifies 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. The subject guidance under ASC Topic 820 also requires 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 September 26, 2010, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash and cash equivalents, derivative assets and liabilities, 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. Derivative assets and liabilities consist of long and short positions on both exchange-traded commodity futures and commodity options as well as margin cash on account with the Company's derivatives brokers. 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 September 26, 2010:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash and cash equivalents	\$ 40,088	\$ 6,125	\$	\$ 46,213
Short-term investments in available-for-sale securities		8,800		8,800
Derivative trading accounts margin cash	2,689			2,689
Commodity derivative assets:				
Futures	938			938
Options		17,043		17,043
Long-term investments in available-for-sale securities	7,315	47,785	1,135	56,235
Long-term restricted cash and cash equivalents	5,000			5,000
Commodity derivative liabilities:				
Futures	(2,475)			(2,475)
Options		(4,752)		(4,752)

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following table presents activity for the three and nine months ended September 26, 2010 related to the Company's investment in a fund of funds asset that is measured at fair value on a recurring basis using Level 3 inputs (in thousands):

Balance at December 27, 2009	\$ 1,116
Included in other comprehensive income	13
Balance at March 28, 2010	1,129
Included in other comprehensive income	10
Balance at June 27, 2010	1,139
Included in other comprehensive income	(4)
Balance at September 26, 2010	\$ 1,135

5. TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	September 26, 2010	September 26, 2009
	(In thousands)	
Trade accounts receivable	\$ 350,649	\$ 307,523
Other receivables	13,149	14,245
Receivables, gross	363,798	321,768
Allowance for doubtful accounts	(8,961)	(4,815)
Receivables, net	\$ 354,837	\$ 316,953

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****6. INVENTORIES**

Inventories consisted of the following components:

	September 26, 2010	September 26, 2009
	(In thousands)	
Chicken:		
Live chicken and hens	\$ 324,802	\$ 287,858
Feed and eggs	205,169	206,137
Finished chicken products	362,695	249,732
Total chicken inventories	892,666	743,727
Other products:		
Commercial feed, table eggs, retail farm store and other	13,955	16,927
Distribution inventories (other than chicken products)	4,004	3,215
Total other products inventories	17,959	20,142
Total inventories	\$ 910,625	\$ 763,869

7. FINANCIAL INSTRUMENTS*Investments in Securities*

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

	September 26, 2010		September 26, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	\$ 4,034	\$ 4,124	\$ 3,414	\$ 3,562
Other	9,810	9,810	35,628	35,628
Current investments:				
Fixed income securities	\$ 8,559	\$ 8,800	\$ 5,174	\$ 5,302
Long-term investments:				
Fixed income securities	\$ 45,076	\$ 47,785	\$ 46,843	\$ 49,477
Equity securities	6,759	7,315	6,595	6,769
Other	1,300	1,135	1,300	1,068

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Maturities for the Company's investments in fixed income securities as of September 26, 2010 were as follows:

	Amount (In thousands)	Percent
Matures in less than one year	\$ 12,924	21%
Matures between one and two years	14,965	25%
Matures between two and five years	24,969	41%
Matures in excess of five years	7,851	13%
	\$ 60,709	100%

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.

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.

Derivative Financial Instruments

The Company utilizes various raw materials in its operations, including corn, soybean meal, soybean oil, 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 our control, such as economic and political conditions, supply and demand, weather, governmental regulation, and other circumstances. Generally, the Company purchases derivative financial instruments, specifically exchange-traded futures and options, in an attempt to mitigate price risk related to its anticipated consumption of commodity inputs for periods up to 12 months. The Company may purchase longer-term derivative financial instruments on particular commodities if deemed appropriate. As of September 26, 2010, the Company had long derivative positions in place covering 15.9% and 2.0% of anticipated corn and soybean meal needs, respectively, through September 2011.

The fair value of derivative assets is included in the line item *Prepaid expenses and other current assets* on the Consolidated Balance Sheets while the fair value of derivative liabilities is included in the line item *Accrued expenses* on the same statements. At September 26, 2010, the fair values of commodity derivative assets and commodity derivative liabilities totaled \$18.0 million and \$7.2 million, respectively. Our counterparties require that we post cash collateral for changes in the net fair value of the derivative contracts. At September 26, 2010, we held \$2.7 million of cash collateral on account to secure our open positions. We did not hold any outstanding derivative financial instruments at September 26, 2009.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

We have not designated the derivative financial instruments that we have purchased to mitigate commodity purchase exposures as cash flow hedges. Therefore, we recognized 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. The Company recognized \$15.4 million in net gains and \$6.4 million in net gains, respectively, related to changes in the fair value of its derivative financial instruments during the three and nine months ended September 26, 2010. The Company recognized \$0.3 million in gains and \$21.4 million in losses, respectively, related to changes in the fair value of its derivative financial instruments during the three and nine months ended September 26, 2009.

During the current year, the Company recognized in earnings a previously unrealized gain totaling \$4.1 million on a derivative instrument designated as a cash flow hedge associated with the Unsecured Notes that were extinguished on December 28, 2009. This gain is included in the line item *Reorganization items, net* in the Consolidated Statement of Operations.

8. PROPERTY, PLANT AND EQUIPMENT

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

	September 26, 2010	September 26, 2009
	(In thousands)	
Land	\$ 78,828	\$ 109,532
Buildings, machinery and equipment	2,495,380	2,468,297
Autos and trucks	56,260	57,556
Construction-in-progress	61,799	74,943
Property, plant and equipment, gross	2,692,267	2,710,328
Accumulated depreciation	(1,348,573)	(1,210,852)
Property, plant and equipment, net	\$ 1,343,694	\$ 1,499,476

The Company recognized depreciation expense of \$52.5 million and \$53.5 million during the three months ended September 26, 2010 and September 26, 2009, respectively and \$159.3 million and \$162.1 million during the nine months ended September 26, 2010 and September 26, 2009, respectively.

During the three months ended September 26, 2010, the Company sold certain property, plant and equipment for cash of \$9.6 million and recognized a gain of \$3.6 million. Property, plant and equipment sold included undeveloped land in Pittsburg, Texas and Saltillo, Coahuila, Mexico, feed mills in Pittsboro, North Carolina and Mt. Pleasant, Texas, a research laboratory in Lithonia, Georgia, a broiler farm in Pittsburg, Texas and aircraft hangars in Mt. Pleasant, Texas. The Company did not sell any significant assets during the first six months of 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Between February 2008 and September 2010, the Company closed or idled (i) processing facilities/complexes in Athens, Alabama, Athens, Georgia, El Dorado, Arkansas, Franconia, Pennsylvania, and Clinton, Arkansas, (ii) hatcheries in Curry, Alabama, Gainesville, Georgia, Pittsburg, Texas and Siler City, North Carolina, and (iii) various broiler farms in Camp County, Texas. Neither the Board of Directors nor JBS USA has determined if it would be in the best interest of the Company to divest of these assets. Management is therefore not certain that it can or will divest of these assets within one year, is not actively marketing these assets, and, accordingly, has not classified them as assets held for sale. The Company continues to depreciate these assets. At September 26, 2010, the carrying amount of these idled assets was \$80.7 million based on depreciable value of \$165.9 million and accumulated depreciation of \$85.2 million.

Between February 2008 and September 2010, the Company also closed or idled (i) processing plants in Dalton, Georgia, Bossier City, Louisiana and Siler City, North Carolina, (ii) administrative offices in Pittsburg, Texas and Atlanta, Georgia, (iii) distribution centers in Shreveport, Louisiana and El Paso, Texas, (iv) a feed mill in Cartersville, Georgia, (v) various breeder and/or broiler farms in Camp County, Texas and Douglas, Georgia and a research farm in Pittsboro, North Carolina. The Company currently classifies these assets as well as certain undeveloped land in Titus County, Texas and a lake marina in Camp County, Texas as assets held for sale. At September 26, 2010 and September 26, 2009, the Company reported assets held for sale totaling \$59.2 million and \$0.5 million, respectively, in *Assets held for sale* on its Consolidated Balance Sheets.

In June 2010, the fair values of the Company's administrative campuses in Pittsburg, Texas and Atlanta, Georgia were estimated using the market approach. The Company recognized administrative restructuring charges totaling \$11.2 million and \$3.6 million, respectively, in the second quarter of 2010 to impair the carrying amounts of certain idled assets located at these campuses to fair value. In September 2010, the Company recognized operational restructuring charges totaling \$0.4 million to impair the carrying amounts of certain idled assets located at the Dalton, Georgia processing plant to fair value.

The Company last formally estimated the fair values of its other assets held for sale and idled assets as of September 26, 2009. Most of these assets were valued at their highest and best use as operating chicken processing facilities. A selected few of these assets were valued as empty facilities. Management does not believe that the aggregate carrying amount of the other assets held for sale or the idled assets are 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.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****9. ACCRUED EXPENSES**

Accrued expenses consisted of the following components:

	September 26, 2010	September 26, 2009
	(In thousands)	
Compensation and benefits	\$ 90,636	\$ 107,850
Interest and debt-related fees	12,886	11,239
Insurance and self-insured claims	86,848	86,081
Commodity derivative liabilities:		
Futures	2,475	
Options	4,752	
Other	78,909	104,089
 Total accrued expenses	 \$ 276,506	 \$ 309,259

10. LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consisted of the following components:

	Maturity	September 26, 2010	September 26, 2009
		(In thousands)	
Senior unsecured notes, at 7 ⁵ / ₈ %	2015	\$ 116	\$ 400,000
Senior subordinated unsecured notes, at 8 ³ / ₈ %	2017	3,517	250,000
The Exit Credit Facility with two term notes payable at 5.313% and one term note payable at 9.00%	2012-2014	1,125,000	
The Exit Credit Facility with one revolving note payable on which the Company had funds borrowed at 4.183% and 6.75%	2012	111,700	
Pre-petition BMO Facility with notes payable at LIBOR plus 1.25% to LIBOR plus 2.75%	2013		218,936
ING Credit Agreement (defined below) with notes payable at LIBOR plus 1.65% to LIBOR plus 3.125%	2011		41,062
Pre-petition CoBank 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
Other	Various	1,628	8,698
 Long-term debt		 1,241,961	 2,045,094
Less: Current maturities of long-term debt		(75,355)	
Less: Long-term debt subject to compromise			(2,004,032)
 Long-term debt, less current maturities		 \$ 1,166,606	 \$ 41,062

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Debt Obligations

Prior Secured Credit Facilities and Unsecured Notes. On the Effective Date, the Company used the proceeds received from borrowings under the Exit Credit Facility and available cash to repay in full the indebtedness under the Prior Secured Credit Facilities totaling \$1,398.0 million. Consequently, pursuant to the Plan and the Confirmation Order, on the Effective Date, the Prior Secured Credit Facilities were terminated.

On the Effective Date, the Company used the proceeds received from the sale of the common stock of Reorganized PPC to JBS USA to repay indebtedness under the Unsecured Notes totaling \$651.9 million. The Plan contemplated that the Unsecured Notes issued under the Company's outstanding indentures would be reinstated unless and to the extent a holder of the notes elected to receive a cash payment equal to the principal amounts of the notes plus unpaid pre-petition interest, with interest accruing on such unpaid interest at the default contract rate through the Effective Date, and the accrued unpaid post-petition interest on the principal amount of the notes at the non-default contract rate through the Effective Date. Based on the holders of the Unsecured Notes making cash elections, \$5.1 million aggregate principal amount of the Unsecured Notes were reinstated on the Effective Date.

DIP Credit Agreement. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and its subsidiaries to enter into the DIP Credit Agreement. During the nine months ended September 26, 2009, average outstanding borrowings and the weighted average interest rate under the DIP Credit Agreement were \$48.8 million and 11.25%, respectively. On December 1, 2009, the maturity date of the DIP Credit Agreement was extended from December 1, 2009 to January 31, 2010 and the lender commitments under the DIP Credit Agreement were reduced to \$250.0 million. Pursuant to the Plan and the Confirmation Order, on the Effective Date, the DIP Credit Agreement was terminated.

ING Credit Agreement. On September 25, 2006, a subsidiary of the Company, Avícola Pilgrim's Pride de México, S. de R.L. de C.V. (the Mexico Borrower), entered into a secured revolving credit agreement (the ING Credit Agreement) with ING Capital, LLC, as agent (the Mexico Agent) and the lenders party thereto (the Mexico Lenders). The ING Credit Agreement has a final maturity date of September 25, 2011 and a revolving commitment of 557.4 million Mexican pesos, a US dollar-equivalent of \$44.0 million at September 26, 2010. There were no outstanding borrowings under the ING Credit Agreement at September 26, 2010. Outstanding amounts under the ING Credit Agreement bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company was operating in Chapter 11, the Applicable Margin for LIBOR loans, Base Rate loans, and TIIE loans was 6.0%, 4.0%, and 5.8%, respectively. Following the Effective Date, the Applicable Margin for LIBOR loans and Base Rate loans is 0.375% higher than the highest applicable interest rate margin under the Exit Credit Facility and for TIIE loans is 0.20% less than the Applicable Margin for LIBOR loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The ING Credit Agreement requires the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100.0% of the net cash proceeds received by any Mexico subsidiary of the Company (a 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. The Mexico Subsidiaries have pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries were excluded from the US bankruptcy proceedings.

Exit Credit Facility. Upon exiting from bankruptcy on December 28, 2009, the Company and certain of its subsidiaries, including To-Ricos, Ltd. and To-Ricos Distribution, Ltd. (together, the To-Ricos Borrowers), entered into the Exit Credit Facility, which provides for an aggregate commitment of \$1.75 billion consisting of (i) a revolving loan commitment of \$600.0 million, (ii) a Term A loans commitment of \$375.0 million and (iii) a Term B loans commitment of \$775.0 million. The revolving loan commitment and the Term A loans will mature on December 28, 2012. Term B loans will mature on December 28, 2014.

On September 26, 2010, \$350.0 million under the Term A loans commitment, \$775.0 million under the Term B loans commitment and \$111.7 million under the revolving loan commitment were outstanding. On December 28, 2009, the Company also paid loan costs totaling \$50.0 million related to the Exit Credit Facility that it recognized as an asset on its balance sheet. The Company amortizes these capitalized costs to expense over the life of the Exit Credit Facility.

The Term A loans must be repaid in 12 equal quarterly principal installments of \$12.5 million beginning on April 15, 2010 with the final installment due on December 28, 2012. The Term B loans must be repaid in 16 equal quarterly principal installments of \$12.5 million beginning on April 15, 2011, with the final installment due on December 28, 2014. Additionally, following the end of each fiscal year, a portion of our cash flow must be used to repay outstanding principal amounts under the Term A and Term B loans. The Company cannot yet accurately predict the amount that will be required to be paid, and accordingly, no amount related to this repayment requirement has been included in current maturities of long-debt at September 26, 2010. Covenants in the Exit Credit Facility also require us to use the proceeds we 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 Credit Facility.

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The Exit Credit Facility includes a \$50.0 million sub-limit for swingline loans and a \$200.0 million sub-limit for letters of credit. Outstanding borrowings under the revolving loan commitment bear interest at a per annum rate equal to 3.50% plus the greater of (i) the US prime rate as published by the *Wall Street Journal*, (ii) the average federal funds rate plus 0.5%, and (iii) the one-month LIBOR rate plus 1.0%, in the case of alternate base rate loans, or 4.50% plus the one, two, three or six month LIBOR rate adjusted by the applicable statutory reserve, in the case of Eurodollar loans. Outstanding Term A and Term B-1 loans bear interest at a per annum rate equal to 4.00% plus greater of (i) the US prime rate, as published by the *Wall Street Journal*, (ii) the average federal funds rate plus 0.5%, and (iii) the one month LIBOR rate plus 1.0%, in the case of alternate base rate loans, or 5.00%, plus the one, two, three or six month LIBOR Rate adjusted by the applicable statutory reserve, in the case of Eurodollar loans. Outstanding Term B-2 loans bear interest at a per annum rate equal to 9.00%. Commitment fees charged on the revolving commitments under the Exit Credit Facility accrue at a per annum rate equal to 1.00%.

Actual borrowings by the Company under the Exit Credit Facility are subject to a borrowing base, which is a formula based on certain eligible inventory, eligible receivables and restricted cash under the control of CoBank ACB, as administrative agent under the Exit Credit Facility. The borrowing base formula is reduced by the sum of (i) inventory reserves, (ii) rent and collateral access reserves, and (iii) any amount more than 15 days past due that is owed by the Company or its 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. Revolving loan availability under the borrowing base is also limited to an aggregate of \$25.0 million with respect to the To-Ricos Borrowers. As of September 26, 2010, the applicable borrowing base was \$600.0 million, the amount available for borrowing under the revolving loan commitment was \$447.5 million and outstanding borrowings and letters of credit under the revolving loan commitment totaled \$152.5 million.

The Exit Credit Facility provides that the Company may not incur capital expenditures in excess of \$225.0 million in fiscal year 2010, \$275.0 million in fiscal year 2011 and \$350.0 million per fiscal year thereafter. The Company must also maintain a minimum fixed charge coverage ratio and a minimum level of tangible net worth and may not exceed a maximum leverage ratio. For the remainder of 2010 and during 2011, the Company must maintain compliance with these covenants at the following levels:

Minimum fixed charge coverage ratio	At least 1.20
Maximum leverage ratio	No greater than 3.00
Minimum consolidated tangible net worth	At least \$656.1 million plus 50.0% of the cumulative net income (excluding any losses) of the Company and its subsidiaries from the Effective Date through the date of calculation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The Company is currently in compliance with these covenants. However, chicken prices, commodity prices, access to export markets and other factors could affect the Company's ability to maintain compliance with its financial covenants. In order to continue to meet the covenants, gross profit will have to improve over the results the Company experienced in the nine months ended September 26, 2010 or management will have to initiate additional cost-cutting or restructuring activities.

All obligations under the Exit Credit Facility are unconditionally guaranteed by certain of the Company's subsidiaries and are secured by a first priority lien on (i) the domestic (including Puerto Rico) accounts receivable and inventory of the Company and its subsidiaries, (ii) 100.0% of the equity interests in the To-Ricos Borrowers and the Company's domestic subsidiaries and 65.0% of the equity interests in the Company's direct foreign subsidiaries, (iii) substantially all of the personal property and intangibles of the Company, the To-Ricos Borrowers and the guarantor subsidiaries, and (iv) substantially all of the real estate and fixed assets of the Company and the subsidiary guarantors.

11. INCOME TAXES

The Company recorded an income tax benefit of \$4.3 million, a (9.88)% effective tax rate, for the nine months ended September 26, 2010, compared to an income tax benefit of \$21.9 million, a (39.6)% effective tax rate, for the nine months ended September 26, 2009. The income tax benefit for the nine months ended September 26, 2010 was primarily the result of the recognition of previously unrecognized tax benefits and tax benefits subsequently recognized for items originating in the prior year.

On November 6, 2009, H.R. 3548 was signed into law and included a provision that allowed most business taxpayers an increased carryback period for net operating losses incurred in 2008 or 2009. As a result, during 2009 the Company utilized \$547.7 million of its US federal net operating losses under the expanded carryback provisions of H.R. 3548 and filed a claim for refund of \$169.7 million. The Company received \$122.6 million in refunds from the Internal Revenue Service (IRS) from the carryback claims during the nine months ended September 26, 2010. The Company anticipates receipt of the remainder of its claim pending resolution of its litigation with the IRS. See Note 14. Commitments and Contingencies for additional information.

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 US net operating losses to reduce its tax liability. The Company experienced an ownership change in December 2009, but believes that utilization of the US net operating losses will not be hindered by the Section 382 limitation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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.

The Company has not provided any deferred income taxes on the undistributed earnings of its foreign subsidiaries based upon the determination that such earnings will be indefinitely reinvested.

The increase in unrecognized tax benefits as a result of tax positions taken during the prior years of \$8.6 million relates to federal income tax positions that no longer meet the more-likely-than-not recognition threshold under ASC 740, *Income Taxes*. The decrease in unrecognized tax benefits as a result of tax positions taken during the prior years of \$10.2 million relates to both federal and state income tax positions that now meet the recognition threshold under ASC 740, primarily as a result of the Company's emergence from bankruptcy on December 28, 2009.

Included in unrecognized tax benefits of \$24.5 million at September 26, 2010 was \$11.5 million of tax benefits that, if recognized, would affect the Company's effective tax rate. It is not practicable at this time to estimate the amount of unrecognized tax benefits that will change in the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. As of September 26, 2010, the Company had recorded a liability of \$6.8 million for interest and penalties.

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.

The Company is currently working with the IRS through the normal processes and procedures that are available to all taxpayers outside of bankruptcy to resolve the IRS' proofs of claim. In connection, the Company has filed various petitions in United States Tax Court (Tax Court) in response to the Notices of Deficiency that were issued to the Company. These matters are currently in the early stages of litigation. See Note 14. Commitments and Contingencies for additional information.

The Company is currently analyzing a method to deconsolidate its Mexico operations from a tax perspective to help minimize the impacts of the new Mexico tax reform that became effective January 1, 2010. It is not practicable at this time to determine the amount of the benefit. During the three months ended December 27, 2009, when the law was enacted, the Company recognized charges of \$15.4 million related to the tax law changes in Mexico.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The Company requested and received approval from the IRS to change the Company's tax year end from the Saturday nearest September 30 of each year to the last Sunday in December of each year. This change aligns the Company's tax year with the tax year of JBS USA. The Company now operates on the basis of a 52/53-week tax year that ends on the Sunday falling on or before December 31.

12. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors programs that provide retirement benefits to most of its employees. These programs include qualified defined benefit pension plans, non-qualified defined benefit retirement plans, a defined benefit postretirement life insurance plan, and defined contribution plans, as follows:

Qualified Defined Benefit Pension Plans

The Pilgrim's Pride Retirement Plan for Union Employees (the Union Plan),

the Pilgrim's Pride Retirement Plan for El Dorado Union Employees (the El Dorado Plan), and

the Pilgrim's Pride Pension Plan for Legacy Gold Kist Employees (the GK Pension Plan).

The Union Plan covers certain locations or work groups within PPC. 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 GK Pension Plan covers certain eligible US employees who were employed at locations that the Company acquired in its acquisition of Gold Kist, Inc. (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.

Non-qualified Defined Benefit Retirement Plans

The Former Gold Kist Inc. Supplemental Executive Retirement Plan (the SERP Plan), and

The Former Gold Kist Inc. Directors' Emeriti Retirement Plan (the Directors' Emeriti Plan).

Pilgrim's Pride assumed sponsorship of the SERP Plan and Directors' Plan through its acquisition of Gold Kist in 2007. The SERP Plan provides benefits on compensation in excess of certain Internal Revenue Code limitations to certain former executives with whom Gold Kist negotiated individual agreements. Benefits under the SERP Plan were frozen as of February 8, 2007. The Directors' Emeriti Plan provides benefits to former Gold Kist directors.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Defined Benefit Postretirement Life Insurance Plan**

The Gold Kist Inc. Retiree Life Insurance Plan (the Insurance Plan). Pilgrim's Pride also assumed defined benefit postretirement medical and life insurance obligations, including the Insurance Plan, 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.

The following table provides the components of net periodic benefit cost for the defined benefit plans mentioned above:

	Three Months Ended				Nine Months Ended			
	September 26, 2010	Other Benefits	September 26, 2009	Other Benefits	September 26, 2010	Other Benefits	September 26, 2009	Other Benefits
	(In thousands)				(In thousands)			
Service cost	\$ 101	\$	\$ (173)	\$	\$ 603	\$	\$ 236	\$
Interest cost (benefit)	2,121	28	(2,280)	(34)	12,598	84	3,133	48
Estimated return (loss) on plan assets	(1,407)		1,737		(8,358)		(2,387)	
Amortization of prior service cost	2		(3)		11		5	
Amortization of net loss (gain)	65		571	13	387		(784)	(16)
Net periodic benefit cost	\$ 882	\$ 28	\$ (148)	\$ (21)	\$ 5,241	\$ 84	\$ 203	\$ 32

During the nine months ended September 26, 2010, the Company contributed \$8.4 million to its defined benefit plans. Subsequent to September 26, 2010 the Company contributed \$1.1 million to its defined benefit plans.

The Company re-measured the assets and obligations of its material defined benefits plans as of December 27, 2009 in response to its pending emergence from bankruptcy, change in its fiscal year, and the purchase of 64.0% of the common stock of Reorganized PPC by JBS USA. The only change made to the assumptions that were used for this re-measurement from the Company's measurement as of September 26, 2009 was an increase in the discount rate from 5.33% to 5.62%. As a result of this re-measurement, the Company reduced its pension obligation by \$9.2 million and recorded accumulated other comprehensive income, net of tax, of \$5.8 million.

Defined Contribution Plans:

The Pilgrim's Pride Retirement Savings Plan (the RS Plan), a Section 401(k) salary deferral plan, and

the To-Ricos Employee Savings and Retirement Plan (the To-Ricos Plan), a Section 1165(e) salary deferral plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Under the RS Plan, eligible US employees may voluntarily contribute a percentage of their compensation. The Company matches up to 30.0% of the first 2.14% to 6.00% of salary based on the salary deferral and compensation levels up to \$245.0 thousand. The Company's expenses related to contributions to the RS Plan totaled \$958,000, \$3.3 million, \$1.2 million and \$3.9 million for the three and nine months ended September 26, 2010 and the three and nine months ended September 26, 2009, respectively. 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. During the three and nine months ended September 26, 2010, the Company's expenses related to contributions to the To-Ricos Plan were immaterial.

The Company also maintains three postretirement plans for eligible Mexico employees as required by Mexico law that primarily cover termination benefits. Separate disclosure of the Mexican plan obligations is not considered material.

Certain retirement plans that the Company 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.

Other key terms of our retirement plans are provided in our 2009 Annual Report on Form 10-K.

13. RELATED PARTY TRANSACTIONS

Upon the Effective Date, JBS USA became the holder of the majority of the common stock of the Company (the **Current Major Stockholder**). Prior to the Effective Date, Lonnie A. Bo Pilgrim and certain entities related to Mr. Pilgrim collectively owned a majority of the voting power of the common stock of the Company (the **Former Major Stockholder**). Mr. Pilgrim was also the Senior Chairman of the Company prior to the Effective Date. Mr. Pilgrim ceased being Senior Chairman on the Effective Date; however, he remains a director of the Company.

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Transactions with the Current Major Stockholder and the Former Major Stockholder are summarized below.

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 26, 2009	September 26, 2010	September 26, 2009
	(In thousands)		(In thousands)	
Current Major Stockholder:				
Purchases from Current Major Stockholder ^(a)	\$ 25,173	\$	\$ 62,996	\$
Expenditures paid by Current Major Stockholder on behalf of Pilgrim's Pride Corporation ^(f)	6,259		18,768	
Sales to Current Major Stockholder ^(a)	2,217		3,993	
Expenditures paid by Pilgrim's Pride Corporation on behalf of Current Major Stockholder ^(f)	1		234	
Former Major Stockholder:				
Sale of airplane hangars and undeveloped land to Former Major Stockholder ^(e)			1,450	
Purchase of commercial egg property from Former Major Stockholder ^(c)			12,000	
Loan guaranty fees paid to Former Major Stockholder ^(b)			8,928	
Contract grower pay paid to Former Major Stockholder	228	304	927	857
Consulting fee paid to Former Major Stockholder ^(d)	374		1,122	
Lease payments on commercial egg property paid to Former Major Stockholder		187	125	562
Sales to Former Major Stockholder		187	23	486

- (a) JBS USA did not become the holder of the majority of the common stock of the Company until the Effective Date. Although transactions did occur between the Company and JBS USA during the nine months ended September 26, 2009, they were not related party transactions.
- (b) Until the Effective Date, Pilgrim Interests, Ltd., an entity related to Lonnie A. Bo Pilgrim, guaranteed 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 could not pay any loan guaranty fees during the Chapter 11 case without the consent of the lenders party thereto. At December 27, 2009, the Company had accrued loan guaranty fees totaling \$8.9 million. The Company paid these fees after emerging from bankruptcy on the Effective Date.
- (c) On February 23, 2010, the Company purchased a commercial egg property from Lonnie A. Bo Pilgrim for \$12.0 million.
- (d) In connection with the Plan, the Company and Lonnie A. Bo Pilgrim entered into a consulting agreement, which became effective on the Effective Date. The terms of the consulting agreement include, among other things, that (i) Mr. Pilgrim will provide services to the Company that are comparable in the aggregate with the services provided by him to the Company prior to the Effective Date, (ii) Mr. Pilgrim will be appointed to the Board of Directors of the Company and during the term of the consulting agreement will be nominated for subsequent terms on the board, (iii) Mr. Pilgrim will be compensated for services rendered to the Company at a rate of \$1.5 million a year for a term of 5 years, (iv) Mr. Pilgrim will be subject to customary non-solicitation and non-competition provisions and (v) 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 the Company.
- (e) On June 9, 2010, the Company sold two airplane hangars and undeveloped land to Lonnie A. Bo Pilgrim for \$1.45 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

- (f) On January 19, 2010, the Company entered into an agreement with JBS USA in order to allocate costs associated with JBS USA's procurement of SAP licenses and maintenance services for its combined companies. Under this agreement, the fees associated with procuring SAP licenses and maintenance services are allocated between the Company and JBS USA in proportion to the percentage of licenses used by each company. The agreement expires on the date of expiration, or earlier termination, of the underlying SAP license agreement. On May 5, 2010, the Company also entered into an agreement with JBS USA in order to allocate the costs of supporting the business operations by one consolidated corporate team, which have historically been supported by their respective corporate teams. Expenditures paid by the Current Major Stockholder on behalf of the Company will be reimbursed by the Company and expenditures paid by the Company on behalf of the Current Major Stockholder will be reimbursed by the Current Major Stockholder. This agreement expires on May 5, 2015.

14. 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 September 26, 2010, the Company was party to outstanding standby letters of credit totaling \$40.8 million that affected the amount of funds available for borrowing under the Exit Credit Facility.

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. For a discussion of the material legal proceedings and claims, see Part II, Item 1. Legal Proceedings. Below is a summary of some of these material proceedings and claims. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

On December 1, 2008, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases were jointly administered under Case No. 08-45664. Until the Effective Date, the Debtors operated 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. The Debtors emerged from Chapter 11 on the Effective Date. The Company continues to work through the claims allowance process with respect to claims arising before the Effective Date. The Company will be responsible to the extent those claims become allowed claims.

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Among the claims presently pending are two claims brought against certain current and former directors, executive officers and employees of the Company, the Pilgrim's Pride Administrative Committee and the Pilgrim's Pride Pension 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 Retirement Savings Plan, individually and on behalf of a putative class, alleging that the defendants breached fiduciary duties to plan participants and beneficiaries or otherwise violated ERISA. 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. In these actions the plaintiffs assert claims in excess of \$35.0 million. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

Also, 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 or former contract chicken growers who allege, along with other assertions, that the Company breached grower contracts, conspired with a competitor to depress grower pay and made false representations to induce the plaintiffs into building chicken farms and entering into chicken growing agreements with the Company. We deny any liability in these actions and 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.

Another claim presently pending against the Company is a claim asserted by the City of Clinton, Arkansas (the City) seeking approximately \$28.0 million in damages relating to construction of and/or improvements to a wastewater fac