

PILGRIMS PRIDE CORP

Form 10-Q

April 27, 2012

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended March 25, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 1-9273

PILGRIM'S PRIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

75-1285071

(I.R.S. Employer  
Identification No.)

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, \$0.01 par value per share, as of April 27, 2012, was 258,926,358.



Table of Contents

INDEX

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

<u>PART I. FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>2</u>
<u>March 25, 2012 and December 25, 2011</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>3</u>
<u>Thirteen weeks ended March 25, 2012 and March 27, 2011</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>4</u>
<u>Thirteen weeks ended March 25, 2012 and March 27, 2011</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Thirteen weeks ended March 25, 2012 and March 27, 2011</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements as of March 25, 2012</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
<u>PART II. OTHER INFORMATION</u>	<u>39</u>
Item 1. <u>Legal Proceedings</u>	<u>39</u>
Item 1A. <u>Risk Factors</u>	<u>42</u>
Item 5. <u>Other Information</u>	<u>42</u>
Item 6. <u>Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>45</u>
<u>EXHIBIT INDEX</u>	<u>46</u>



Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## PILGRIM'S PRIDE CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 25, 2012 (Unaudited) (In thousands)	December 25, 2011
Cash and cash equivalents	\$47,570	\$41,609
Restricted cash and cash equivalents	4,684	7,680
Investment in available-for-sale securities	156	157
Trade accounts and other receivables, less allowance for doubtful accounts	350,832	349,222
Account receivable from JBS USA, LLC	19,406	21,198
Inventories	910,430	879,094
Income taxes receivable	63,884	59,067
Prepaid expenses and other current assets	40,588	52,350
Assets held for sale	50,220	53,816
Total current assets	1,487,770	1,464,193
Investment in available-for-sale securities	591	497
Deferred tax assets	71,099	71,099
Other long-lived assets	51,445	57,921
Identified intangible assets, net	42,656	44,083
Property, plant and equipment, net	1,224,880	1,241,752
Total assets	\$2,878,441	\$2,879,545
Accounts payable	\$293,131	\$328,864
Account payable to JBS USA, LLC	8,339	11,653
Accrued expenses and other current liabilities	290,637	281,797
Current deferred tax liabilities	79,328	79,248
Current maturities of long-term debt	15,614	15,611
Total current liabilities	687,049	717,173
Long-term debt, less current maturities	1,249,510	1,408,001
Note payable to JBS USA Holdings, Inc.	—	50,000
Other long-term liabilities	144,906	145,941
Total liabilities	2,081,465	2,321,115
Common stock	2,589	2,143
Additional paid-in capital	1,641,566	1,443,484
Accumulated deficit	(804,772)	(843,945)
Accumulated other comprehensive loss	(45,650)	(46,070)
Total Pilgrim's Pride Corporation stockholders' equity	793,733	555,612
Noncontrolling interest	3,243	2,818
Total stockholders' equity	796,976	558,430
Total liabilities and stockholders' equity	\$2,878,441	\$2,879,545
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.		



Table of Contents

PILGRIM'S PRIDE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Thirteen Weeks Ended	
	March 25, 2012	March 27, 2011
	(In thousands, except per share data)	
Net sales	\$ 1,888,773	\$ 1,892,476
Cost of sales	1,778,708	1,944,238
Operational restructuring charges	—	1,348
Gross profit (loss)	110,065	(53,110)
Selling, general and administrative expense	45,256	53,248
Administrative restructuring charges	2,885	418
Operating income (loss)	61,924	(106,776)
Interest expense, net of capitalized interest	28,245	27,507
Interest income	(274)	(710)
Foreign currency transaction gains	(5,928)	(2,735)
Miscellaneous, net	(370)	(1,071)
Income (loss) before income taxes	40,251	(129,767)
Income tax expense (benefit)	653	(9,872)
Net income (loss)	39,598	(119,895)
Less: Net income attributable to noncontrolling interests	425	865
Net income (loss) attributable to Pilgrim's Pride Corporation	\$ 39,173	\$ (120,760)
Comprehensive income (loss)	\$ 40,018	\$ (120,410)
Comprehensive income attributable to noncontrolling interests	425	865
Comprehensive income (loss) attributable to Pilgrim's Pride Corporation	\$ 39,593	\$ (121,275)
Weighted average shares of common stock outstanding:		
Basic (Note 13. Stockholders' Equity)	223,562	224,996
Effect of common stock equivalents	69	—
Diluted	223,631	224,996
Net income (loss) per share of common stock outstanding:		
Basic	\$ 0.18	\$ (0.54)
Diluted	\$ 0.18	\$ (0.54)

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





Table of Contents

## PILGRIM'S PRIDE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Pilgrim's Pride Corporation Stockholders						
	Common Stock				Accumulated		
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	(In thousands)						
Balance at December 25, 2011	214,282	\$2,143	\$1,443,484	\$ (843,945 )	\$ (46,070 )	\$ 2,818	\$558,430
Comprehensive income:							
Net income				39,173		425	39,598
Other comprehensive income, net of tax:							
Net unrealized holding gains on available-for-sale securities, net of tax of \$0					5		5
Gains associated with pension and other postretirement benefit obligations, net of tax of \$0					415		415
Total other comprehensive income, net of tax							420
Total comprehensive income							40,018
Issuance of common stock	44,444	444	197,935				198,379
Share-based compensation	200	2	147				149
Balance at March 25, 2012	258,926	\$2,589	\$1,641,566	\$ (804,772 )	\$ (45,650 )	\$ 3,243	\$796,976
Balance at December 26, 2010	214,282	\$2,143	\$1,442,810	\$ (348,653 )	\$ (23,637 )	\$ 5,933	\$1,078,596
Comprehensive loss:							
Net income (loss)	—	—	—	(120,760 )	—	865	(119,895 )
Other comprehensive loss, net of tax:							
Net unrealized holding losses on available-for-sale securities, net of tax of \$0	—	—	—	—	(477 )	—	(477 )
Losses associated with pension and other postretirement benefit obligations, net of tax of \$0	—	—	—	—	(38 )	—	(38 )
Total other comprehensive loss, net of tax							(515 )
Total comprehensive loss							(120,410 )
Share-based compensation	—	—	120	—	—	—	120
Balance at March 27, 2011	214,282	\$2,143	\$1,442,930	\$ (469,413 )	\$ (24,152 )	\$ 6,798	\$958,306
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.							

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



Table of Contents

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Thirteen Weeks Ended	
	March 25, 2012	March 27, 2011
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$39,598	\$(119,895 )
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	35,766	50,852
Foreign currency transaction gains	(5,407 )	(2,776 )
Accretion of bond discount	114	111
Impairment expense	1,342	—
Loss (gain) on property disposals	859	(1,135 )
Share-based compensation	149	120
Deferred income tax benefit	—	(11,106 )
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	7,996	(164 )
Trade accounts and other receivables	3,043	(67,283 )
Inventories	(25,813 )	64,273
Prepaid expenses and other current assets	13,144	11,407
Accounts payable, accrued expenses and other current liabilities	(35,003 )	(28,054 )
Income taxes	(3,421 )	992
Deposits	—	135
Other operating assets and liabilities	(2,985 )	120
Cash provided by (used in) operating activities	29,382	(102,403 )
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(16,670 )	(63,960 )
Purchases of investment securities	(88 )	(1,353 )
Proceeds from sale or maturity of investment securities	—	831
Proceeds from property disposals	3,066	4,402
Cash used in investing activities	(13,692 )	(60,080 )
Cash flows from financing activities:		
Proceeds from revolving line of credit and long-term borrowings	183,200	255,300
Payments on revolving line of credit, long-term borrowings and capital lease obligations	(341,802 )	(135,625 )
Payment of note payable to JBS USA Holdings, Inc.	(50,000 )	—
Proceeds from sale of common stock, net	198,379	—
Payment of capitalized loan costs	—	(689 )
Cash provided by (used in) financing activities	(10,223 )	118,986
Effect of exchange rate changes on cash and cash equivalents	494	433
Increase (decrease) in cash and cash equivalents	5,961	(43,064 )
Cash and cash equivalents, beginning of period	41,609	106,077
Cash and cash equivalents, end of period	\$47,570	\$63,013

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

#### Business

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's," "PPC," "the Company," "we," "us," "our," or similar terms) is the second-largest chicken company in the world, with operations in the United States ("U.S."), Mexico and Puerto Rico. Pilgrim's products are sold to foodservice, retail and frozen entrée customers. The Company's primary distribution is through retailers, foodservice distributors and restaurants throughout the United States and Puerto Rico and in the northern and central regions of Mexico. Additionally, the Company exports chicken products to approximately 105 countries. Pilgrim's fresh chicken products consist of refrigerated whole chickens, whole cut-up chickens and selected chicken parts that are either marinated or non-marinated. The Company's prepared chicken products include fully cooked, ready-to-cook and individually frozen chicken parts, strips, nuggets and patties, some of which are either breaded or non-breaded and either marinated or non-marinated. 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 12 U.S. states, Puerto Rico and Mexico. Pilgrim's employs approximately 38,500 people and has the capacity to process more than 36 million birds per week for a total of more than 9.5 billion pounds of live chicken annually. Approximately 4,100 contract growers supply poultry for the Company's operations.

#### Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. 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 thirteen weeks ended March 25, 2012 are not necessarily indicative of the results that may be expected for the year ending December 30, 2012. 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 December 25, 2011.

Pilgrim's operates on 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, 2012) in the notes to these Condensed Consolidated Financial Statements applies to our fiscal year and not the calendar year.

The Condensed Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries. We eliminate all significant affiliate accounts and transactions upon consolidation.

The Company measures the financial statements of its Mexico subsidiaries as if the U.S. dollar were the functional currency. Accordingly, we remeasure assets and liabilities, other than non-monetary assets, of the Mexico subsidiaries at current exchange rates. We remeasure non-monetary assets using the historical exchange rate in effect on the date of each asset's acquisition. We remeasure income and expenses at average exchange rates in effect during the period. Currency exchange gains or losses are included in the line item Foreign currency transaction losses (gains) in the Condensed Consolidated Statements of Operations.

#### Reclassifications

We have made certain reclassifications to the 2011 Condensed Consolidated Financial Statements with no impact to reported net loss in order to conform to the 2012 presentation.

#### Reportable Segment

We operate in one reportable business segment, as a producer and seller of chicken products we either produce or purchase for resale.

#### Revenue Recognition

We recognize revenue when all of the following circumstances are satisfied: (i) persuasive evidence of an arrangement exists, (ii) price is fixed or determinable, (iii) collectability is reasonably assured and (iv) delivery has occurred. Delivery occurs in the period in which the customer takes title and assumes the risks and rewards of ownership of the products specified in the customer's purchase order or sales agreement. Revenue is recorded net of estimated incentive offerings including special pricing agreements, promotions and other volume-based incentives. Revisions to these estimates are charged back to net sales in the period in which the facts that give rise to the revision become known.

Table of Contents

## Book Overdraft

The majority of the Company's disbursement bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are classified as accounts payable and the change in the related balance is reflected in operating activities on the Condensed Consolidated Statements of Cash Flows.

## 2. EXIT OR DISPOSAL ACTIVITIES

From time to time, the Company will incur costs to implement exit or disposal efforts for specific operations. These exit or disposal plans, each of which is approved by the Company's Board of Directors, focus on various aspects of operations, including closing and consolidating certain processing facilities, rationalizing headcount and aligning operations in the most strategic and cost-efficient structure. Specific exit or disposal efforts that were ongoing during either the thirteen weeks ended March 25, 2012 or the thirteen weeks ended March 27, 2011 included the following:

	Facilities Closures <sup>(a)</sup>	Administrative Integration <sup>(b)</sup>	Total
	(In thousands, except positions eliminated)		
Earliest implementation date	July 2009	January 2010	
Latest expected completion date	September 2014	March 2012	
Positions eliminated	2,410	480	2,890
Costs expected to be incurred:			
Employee-related costs	\$ 3,170	\$ 14,578	\$ 17,748
Asset impairment costs	17,902	32,530	50,432
Inventory valuation costs	850	—	850
Other exit or disposal costs	19,379	—	19,379
Total exit or disposal costs	\$ 41,301	\$ 47,108	\$ 88,409
Costs incurred during the thirteen weeks ended March 25, 2012:			
Employee-related costs	\$ 78	\$ —	\$ 78
Asset impairment costs	960	382	1,342
Other exit or disposal costs	1,543	—	1,543
Total exit or disposal costs	\$ 2,581	\$ 382	\$ 2,963
Costs incurred during the thirteen weeks ended March 27, 2011:			
Employee-related costs	\$ —	\$ 540	\$ 540
Asset impairment costs	1,766	—	1,766
Total exit or disposal costs	\$ 1,766	\$ 540	\$ 2,306
Costs incurred since inception:			
Employee-related costs	\$ 3,170	\$ 14,578	\$ 17,748
Asset impairment costs	17,902	32,530	50,432
Inventory valuation costs	850	—	850
Other exit or disposal costs	6,793	—	6,793
Total exit or disposal costs	\$ 28,715	\$ 47,108	\$ 75,823

Significant facilities closed included one processing plant in 2008, two processing plants in 2009, two processing plants in the transition period and one processing plant in 2011. The transition period began September 27, 2009 and ended December 27, 2009 and resulted from the Company's change in its fiscal year end from the Saturday nearest September 30 each year to the last Sunday in December of each year.

(a)

- (b) Company management implemented certain activities to integrate the administrative functions of the Company into those of JBS USA Holdings, Inc. These included the closures of administrative offices in Georgia and Texas.



Table of Contents

Accrued exit or disposal costs are included in Accrued expenses and other current liabilities on the accompanying Condensed Consolidated Balance Sheets. The following table sets forth activity that was recorded through the Company's accrued exit or disposal cost accounts during the thirteen weeks ended March 25, 2012 and March 27, 2011:

	Accrued Severance (In thousands)	Accrued Inventory Charges	Total
Balance at December 25, 2011	\$90	\$793	\$883
Accruals	—	—	—
Payment /Disposal	(147	) (136	) (283
Adjustments	78	—	78
Balance at March 25, 2012	\$21	\$657	\$678
Balance at December 26, 2010	\$4,150	\$793	\$4,943
Accruals	1,101	—	1,101
Payment /Disposal	(3,258	) —	(3,258
Adjustments	(561	) —	(561
Balance at March 27, 2011	\$1,432	\$793	\$2,225

Exit or disposal costs were included on the following lines in the accompanying Condensed Consolidated Statements of Operations:

	Thirteen Weeks Ended	
	March 25, 2012	March 27, 2011
	(In thousands)	
Cost of sales	\$78	\$—
Operational restructuring charges	—	1,348
Selling, general and administrative expense	—	540
Administrative restructuring charges	2,885	418
Total exit or disposal costs	\$2,963	\$2,306

Certain exit or disposal costs were classified as either Operational restructuring charges or Administrative restructuring charges on the accompanying Condensed Consolidated Statements of Operations because management believed these costs were not directly related to the Company's ongoing operations. Components of operating restructuring charges and administrative restructuring charges recognized during the thirteen weeks ended March 25, 2012 and March 27, 2011 are summarized below:

	Thirteen Weeks Ended	
	March 25, 2012	March 27, 2011
	(In thousands)	
Operational restructuring charges:		
Asset impairment costs (Note 8. Property, Plant and Equipment)	\$—	\$1,348
Administrative restructuring charges:		
Asset impairment costs (Note 8. Property, Plant and Equipment)	\$1,342	\$418
Loss on egg sales and flock depletion expensed as incurred	455	—
Other restructuring costs	1,088	—
Total administrative restructuring charges	\$2,885	\$418

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-

Table of Contents

approval of our lenders under our U.S. Credit Facility (as defined in Note 10). 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.

### 3. FAIR VALUE MEASUREMENTS

The asset (liability) amounts recorded in the Condensed Consolidated Balance Sheets (carrying amounts) and the estimated fair values of financial instruments at March 25, 2012 and December 25, 2011 consisted of the following:

	March 25, 2012		December 25, 2011	
	Carrying Amount	Fair Value (In thousands)	Carrying Amount	Fair Value
Short-term investments in available-for-sale securities	\$ 156	\$ 156	\$ 157	\$ 157
Commodity derivative assets <sup>(a)</sup> :				
Futures	3,399	3,399	2,870	2,870
Long-term investments in available-for-sale securities	591	591	497	497
Commodity derivative liabilities <sup>(b)</sup> :				
Futures	(3,745 )	(3,745 )	(2,120 )	(2,120 )
Options	—	—	(603 )	(603 )
Long-term debt and other borrowing arrangements <sup>(c)</sup>	(1,265,124 )	(1,289,698 )	(1,423,612 )	(1,421,517 )
Note payable to JBS USA Holdings, Inc.	—	—	(50,000 )	(50,077 )

(a) Commodity derivative assets are included in Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet.

(b) Commodity derivative liabilities are included in Accrued expenses on the Condensed Consolidated Balance Sheet.

The fair values of the Company's long-term debt and other borrowing arrangements were estimated by calculating the net present value of future payments for each debt obligation or borrowing by: (i) using a risk-free rate

(c) applicable for an instrument with a life similar to the remaining life of each debt obligation or borrowing plus the current estimated credit risk spread for the Company or (ii) using the quoted market price at March 25, 2012 or December 25, 2011.

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.

The Company follows guidance under ASC Topic 820, Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value and required enhanced disclosures about fair value measurements. The 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. 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 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 Unobservable inputs, such as discounted cash flow models or valuations.

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

As of March 25, 2012, 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

Table of Contents

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 were measured at fair value on a recurring basis at March 25, 2012:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Short-term investments in available-for-sale securities	\$—	\$156	\$—	\$156
Commodity derivative assets:				
Futures	3,399	—	—	3,399
Long-term investments in available-for-sale securities	—	532	59	591
Commodity derivative liabilities:				
Futures	(3,745)	—	—	(3,745)

Financial assets and liabilities classified in Level 1 at March 25, 2012 include cash and cash equivalents, restricted cash and cash equivalents, equity securities and commodity futures derivative instruments traded in active markets. The valuation of these instruments is determined using a market approach, taking into account current interest rates, creditworthiness, and liquidity risks in relation to current market conditions, and is based upon unadjusted quoted prices for identical assets in active markets. The valuation of financial assets and liabilities in Level 2 is determined using a market approach based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for substantially the full term of the financial instrument. Level 2 securities primarily include fixed income securities and commodity option derivative instruments. The valuation of financial assets in Level 3 is determined using an income approach based on unobservable inputs such as discounted cash flow models or valuations. The Company's sole Level 3 financial asset at March 25, 2012 was a fund-of-funds investment. The following table presents activity for the thirteen weeks ended March 25, 2012 and March 27, 2011, respectively, 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:

	Thirteen Weeks Ended	
	March 25, 2012	March 27, 2011
	(In thousands)	
Balance at beginning of period	\$59	\$1,190
Included in other comprehensive income	—	43
Balance at end of period	\$59	\$1,233

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records certain assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges when required by U.S. GAAP. Certain long-lived assets held for sale with a carrying amount of \$2.0 million were written down to their fair value of \$0.7 million, resulting in a loss of \$1.3 million recorded in earnings during the thirteen weeks ended March 25, 2012. These assets are classified as Level 2 assets because their fair value can be corroborated based on observable market data.

#### 4. TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	March 25, 2012	December 25, 2011
	(In thousands)	
Trade accounts receivable	\$344,411	\$337,411
Account receivable from JBS USA, LLC	19,406	21,198
Other receivables	11,258	16,974
Receivables, gross	375,075	375,583
Allowance for doubtful accounts	(4,837)	(5,163)

Receivables, net	\$370,238	\$370,420
------------------	-----------	-----------

10

---

Table of Contents

## 5. INVENTORIES

Inventories consisted of the following:

	March 25, 2012 (In thousands)	December 25, 2011
Chicken:		
Live chicken and hens	\$384,062	\$363,590
Feed, eggs and other	253,467	238,449
Finished chicken products	269,433	273,363
Total chicken inventories	906,962	875,402
Other products:		
Commercial feed, table eggs and other	3,450	3,674
Distribution inventories (other than chicken products)	18	18
Total other products inventories	3,468	3,692
Total inventories	\$910,430	\$879,094

## 6. INVESTMENTS IN SECURITIES

We recognize investments in available-for-sale securities as cash equivalents, current investments or long-term investments depending upon each security's length to maturity. Additionally, those securities identified by management at the time of purchase for funding operations in less than one year are classified as current. The following table summarizes our investments in available-for-sale securities:

	March 25, 2012		December 25, 2011	
	Amortized Cost (In thousands)	Fair Value	Amortized Cost	Fair Value
Short-term investments:				
Fixed income securities	\$151	\$156	\$152	\$157
Long-term investments:				
Fixed income securities	454	533	367	438
Other	59	59	59	59

Maturities for the Company's investments in fixed income securities as of March 25, 2012 were as follows:

	Amount (In thousands)	Percent	
Matures in less than one year	\$156	23	%
Matures between one and two years	109	16	%
Matures between two and five years	200	29	%
Matures in excess of five years	224	32	%
	\$689	100	%

The Company and certain retirement plans that it sponsors invest in a variety of financial instruments. Certain postretirement funds in which the Company participates hold significant amounts of mortgage-backed securities. However, none of the mortgages collateralizing these securities are considered subprime.

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

## 7. 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,





Table of Contents

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 of up to 12 months. The Company may purchase longer-term derivative financial instruments on particular commodities if deemed appropriate. The fair value of derivative assets is included in the line item Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets while the fair value of derivative liabilities is included in the line item Accrued expenses and other current liabilities on the same statements. Our counterparties require that we post cash collateral for changes in the net fair value of the derivative contracts.

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 Condensed Consolidated Statements of Operations. The Company recognized net losses of \$4.6 million and net gains of \$32.0 million related to changes in the fair value of its derivative financial instruments during the thirteen weeks ended March 25, 2012 and March 27, 2011, respectively.

Information regarding the Company's outstanding derivative instruments and cash collateral posted with (owed to) brokers is included in the following table:

	March 25, 2012	December 25, 2011
	(Fair values in thousands)	
Fair values:		
Commodity derivative assets	\$3,399	\$2,870
Commodity derivative liabilities	(3,745)	(2,723)
Cash collateral posted with brokers	3,315	3,271
Derivatives Coverage <sup>(a)</sup> :		
Corn	(a)	(a)
Soybean meal	(a)	(a)
Period through which stated percent of needs are covered:		
Corn	(a)	(a)
Soybean meal	(a)	(a)
Written put options outstanding <sup>(b)</sup> :		
Fair value	\$—	\$(603)
Number of contracts:		
Corn	—	500
Soybean meal	—	—
Expiration dates	—	March 2012
Short positions on outstanding futures derivative instruments <sup>(b)</sup> :		
Fair value	\$(1,387)	\$495
Number of contracts:		
Corn	1,590	2,531
Soybean meal	988	96
Soybean oil	37	—

Derivatives coverage is the percent of anticipated corn and soybean meal needs covered by outstanding derivative instruments through a specified date. As of March 25, 2012, the Company had short derivative positions to offset long forward cash purchases, which exceeded open long derivative positions for corn, soybean meal and soybean oil. These positions expire by March 2013.

(b) A written put option is an option that the Company has sold that grants the holder the right, but not the obligation, to sell the underlying asset at a certain price for a specified period of time. When the Company takes a short

position on a futures derivative instrument, it agrees to sell the underlying asset in the future at a price established on the contract date. The Company writes put options and takes short positions on futures derivative instruments to minimize the impact of feed ingredients price volatility on its operating results.

Table of Contents

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (“PP&E”), net consisted of the following:

	March 25, 2012	December 25, 2011
	(In thousands)	
Land	\$65,537	\$65,413
Buildings	1,081,869	1,077,789
Machinery and equipment	1,493,472	1,492,251
Autos and trucks	57,918	58,518
Construction-in-progress	31,771	36,094
PP&E, gross	2,730,568	2,730,065
Accumulated depreciation	(1,505,687)	(1,488,313)
PP&E, net	\$1,224,880	\$1,241,752

The Company recognized depreciation expense of \$31.9 million and \$46.9 million during the thirteen weeks ended March 25, 2012 and March 27, 2011, respectively.

During the thirteen weeks ended March 25, 2012, the Company sold certain PP&E for cash of \$3.1 million and recognized net losses on these sales of \$0.9 million. PP&E sold in 2012 included various broiler and breeder farms in Texas and miscellaneous processing equipment. During the thirteen weeks ended March 27, 2011, the Company sold certain PP&E for cash of \$4.4 million and recognized net gains on these sales of \$1.1 million. PP&E sold in 2011 included various broiler and breeder farms in Texas and miscellaneous processing equipment.

Management has committed to the sale of certain properties and related assets, including, but not limited to, processing plants, office buildings and farms, which no longer fit into the operating plans of the Company. The Company is actively marketing these properties and related assets for immediate sale and believes a sale of each property can be consummated within the next 12 months. At March 25, 2012 and December 25, 2011, the Company reported properties and related assets totaling \$50.2 million and \$53.8 million, respectively, in Assets held for sale on its Condensed Consolidated Balance Sheets. For the thirteen weeks ended March 25, 2012, the Company recognized impairment expense of \$1.3 million on certain of these assets.

As part of the exit or disposal activities discussed in “Note 2. Exit or Disposal Activities,” the Company closed or idled various processing complexes, processing plants, hatcheries and broiler farms throughout the U.S. Neither the Board of Directors nor JBS USA Holdings, Inc. has determined if it would be in the best interest of the Company to divest any of these idled assets. Management is therefore not certain that it can or will divest any 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 March 25, 2012, the carrying amount of these idled assets was \$62.8 million based on depreciable value of \$151.9 million and accumulated depreciation of \$89.1 million.

The Company last tested the recoverability of its long-lived assets held and used in December 2011. At that time, the Company determined that the carrying amount of its long-lived assets held and used was recoverable over the remaining life of the primary asset in the group and that long-lived assets held and used passed the Step 1 recoverability test under ASC 360-10-35, Impairment or Disposal of Long-Lived Assets. There were no indicators present during the thirteen weeks ended March 25, 2012 that required the Company to test its long-lived assets held and used for recoverability.



Table of Contents

9. CURRENT LIABILITIES

Current liabilities, other than income taxes and current maturities of long-term debt, consisted of the following components:

	March 25, 2012	December 25, 2011
	(In thousands)	
Accounts payable:		