PILGRIMS PRIDE CORP
Form 10-Q
July 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 29, 2014
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 ý 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 ý 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ý	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 ý
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 ý No ¨
Number of shares outstanding of the issuer's common stock, $0.01 par value per share, as of July 30, 2014, was 259,029,033.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
PILGRIM'S PRIDE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 29, 2014 (Unaudited) (In thousands)	December 29, 2013
Cash and cash equivalents	$527,412	$508,206
Investment in available-for-sale securities	—	96,902
Trade accounts and other receivables, less allowance for doubtful accounts	404,866	376,678
Account receivable from JBS USA, LLC	4,376	2,388
Inventories	837,333	808,832
Income taxes receivable	—	64,868
Current deferred tax assets	2,227	2,227
Prepaid expenses and other current assets	82,066	61,848
Assets held for sale	5,415	7,033
Total current assets	1,863,695	1,928,982
Deferred tax assets	87,544	18,921
Other long-lived assets	31,664	40,163
Identified intangible assets, net	29,654	32,525
Property, plant and equipment, net	1,173,868	1,151,811
Total assets	$3,186,425	$3,172,402
Accounts payable	$387,466	$370,360
Account payable to JBS USA, LLC	4,632	3,934
Accrued expenses and other current liabilities	290,859	283,355
Income taxes payable	120,846	—
Current deferred tax liabilities	15,622	15,515
Current maturities of long-term debt	257	410,234
Total current liabilities	819,682	1,083,398
Long-term debt, less current maturities	502,039	501,999
Deferred tax liabilities	—	13,944
Other long-term liabilities	90,205	80,459
Total liabilities	1,411,926	1,679,800
Common stock	2,590	2,590
Additional paid-in capital	1,655,496	1,653,119
Retained earnings (accumulated deficit)	168,321	(120,156)
Accumulated other comprehensive loss	(55,179)	(45,735)
Total Pilgrim's Pride Corporation stockholders' equity	1,771,228	1,489,818
Noncontrolling interest	3,271	2,784
Total stockholders' equity	1,774,499	1,492,602
Total liabilities and stockholders' equity	$3,186,425	$3,172,402

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

PILGRIM’S PRIDE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(In thousands, except per share data)			
Net sales	$2,186,816	$2,184,119	$4,204,881	$4,221,048
Cost of sales	1,837,341	1,901,611	3,640,300	3,820,106
Gross profit	349,475	282,508	564,581	400,942
Selling, general and administrative expense	48,607	44,099	93,808	88,091
Administrative restructuring charges	438	480	2,151	964
Operating income	300,430	237,929	468,622	311,887
Interest expense, net of capitalized interest	14,562	22,965	34,035	47,786
Interest income	(992)	(707)	(1,803)	(923)
Foreign currency transaction loss (gain)	(1,819)	9,713	(1,482)	2,089
Miscellaneous, net	(993)	(717)	(1,999)	(722)
Income before income taxes	289,672	206,675	439,871	263,657
Income tax expense	99,227	15,884	151,239	18,638
Net income	190,445	190,791	288,632	245,019
Less: Net income (loss) attributable to noncontrolling interests	85	86	155	(268)
Net income attributable to Pilgrim’s Pride Corporation	$190,360	$190,705	$288,477	$245,287
Weighted average shares of common stock outstanding:				
Basic	258,977	258,826	258,950	258,825
Effect of dilutive common stock equivalents	597	332	560	230
Diluted	259,574	259,158	259,510	259,055
Net income attributable to Pilgrim's Pride Corporation per share of common stock outstanding:				
Basic	$0.73	$0.74	$1.11	$0.95
Diluted	$0.73	$0.74	$1.11	$0.95

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

PILGRIM’S PRIDE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(In thousands)			
Net income	$190,445	$190,791	$288,632	$245,019
Other comprehensive income:				
Gain (loss) associated with available-for-sale securities, net of tax expense of $(3), $0, $(20) and $0, respectively	7	—	(29)	—
Gain (loss) associated with pension and other postretirement benefits, net of tax benefit of $2,200, $0, $5,709 and $0, respectively	(3,629)	25,391	(9,415)	35,801
Total other comprehensive income (loss), net of tax	(3,622)	25,391	(9,444)	35,801
Comprehensive income	186,823	216,182	279,188	280,820
Less: Comprehensive income (loss) attributable to noncontrolling interests	85	86	155	(268)
Comprehensive income attributable to Pilgrim's Pride Corporation	$186,738	$216,096	$279,033	$281,088

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

PILGRIM’S PRIDE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Pilgrim’s Pride Corporation Stockholders						
	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	(In thousands)						
Balance at December 29, 2013	259,029	$2,590	$1,653,119	$ (120,156)	$ (45,735)	$ 2,784	$1,492,602
Net income	—	—	—	288,477	—	155	288,632
Other comprehensive loss, net of tax	—	—	—	—	(9,444)	—	(9,444)
Issuance of subsidiary common stock	—	—	—	—	—	332	332
Share-based compensation plans:							
Requisite service period recognition	—	—	2,377	—	—	—	2,377
Balance at June 29, 2014	259,029	$2,590	$1,655,496	$ 168,321	$ (55,179)	$ 3,271	$1,774,499
Balance at December 30, 2012	258,999	$2,590	$1,642,003	$ (669,711)	$ (68,511)	$ 2,626	$908,997
Net income	—	—	—	245,287	—	(268)	245,019
Other comprehensive income, net of tax					35,801		35,801
Share-based compensation plans:							
Common stock issued under compensation plans	30	—	—	—	—	—	—
Requisite service period recognition	—	—	1,603	—	—	—	1,603
Balance at June 30, 2013	259,029	2,590	$1,643,606	$ (424,424)	$ (32,710)	$ 2,358	$1,191,420

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

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

	Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$288,632	$245,019
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	76,521	75,939
Foreign currency transaction loss (gain)	(1,077)	1,338
Accretion of bond discount	228	228
Loss (gain) on property disposals	(1,139)	(824)
Gain on investment securities	(48)	—
Share-based compensation	2,377	1,603
Deferred income tax benefit	(79,619)	—
Changes in operating assets and liabilities:		
Trade accounts and other receivables	(29,702)	(7,654)
Inventories	(28,257)	(579)
Prepaid expenses and other current assets	(20,054)	(15,114)
Accounts payable, accrued expenses and other current liabilities	24,918	7,097
Income taxes	182,948	4,687
Deposits	—	480
Long-term pension and other postretirement obligations	94	(2,149)
Other operating assets and liabilities	369	856
Cash provided by operating activities	416,191	310,927
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(90,814)	(48,969)
Purchases of investment securities	(37,000)	—
Proceeds from sale or maturity of investment securities	133,950	—
Proceeds from property disposals	4,357	2,883
Cash provided by (used in) investing activities	10,493	(46,086)
Cash flows from financing activities:		
Proceeds from revolving line of credit	—	505,600
Payments on revolving line of credit, long-term borrowings and capital lease obligations	(410,165)	(758,251)
Sale of subsidiary common stock	332	—
Cash used in financing activities	(409,833)	(252,651)
Effect of exchange rate changes on cash and cash equivalents	2,355	(2,139)
Increase (decrease) in cash and cash equivalents	19,206	10,051
Cash and cash equivalents, beginning of period	508,206	68,180
Cash and cash equivalents, end of period	$527,412	$78,231

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 o the largest chicken producers 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 100 countries. Pilgrim's fresh chicken products consist of refrigerated (nonfrozen) 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 has approximately 35,500 employees and has the capacity to process more than 34 million birds per week for a total of more than 10 billion pounds of live chicken annually. Approximately 3,750 contract growers supply poultry for the Company's operations. As of June 29, 2014, JBS USA Holdings, Inc. ("JBS USA"), an indirect subsidiary of Brazil-based JBS S.A., beneficially owned 75.5% of the Company's outstanding common stock.

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. ("U.S. GAAP") 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 U.S. GAAP 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 and twenty-six weeks ended June 29, 2014 are not necessarily indicative of the results that may be expected for the year ending December 28, 2014. 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 29, 2013.

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, 2014) 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 Income.

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.

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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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. The provisions of the new guidance will be effective as of the beginning of our 2017 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

2. FAIR VALUE MEASUREMENTS

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. Assets and liabilities measured at fair value must be categorized into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation:

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 in its entirety.

As of June 29, 2014 and December 29, 2013, the Company held certain items that were required to be measured at fair value on a recurring basis. These included derivative assets and liabilities and deferred compensation plan assets. Derivative assets and liabilities consist of long and short positions on exchange-traded commodity futures instruments. The Company maintains nonqualified deferred compensation plans for executives and other highly compensated employees. Investments are maintained within a trust and include money market funds, mutual funds and life insurance policies. The cash surrender value of the life insurance policies is invested primarily in mutual funds. The following items were measured at fair value on a recurring basis:

	June 29, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Derivative assets - commodity futures instruments	$4,126	$—	$—	$4,126
Derivative assets - commodity options instruments	—	16	—	16
Deferred compensation plan assets	7,189	—	—	7,189
Derivative liabilities - commodity futures instruments	(3,928)	—	—	(3,928)
Derivative liabilities - commodity options instruments	—	(4,238)	—	(4,238)
Derivative liabilities - foreign currency instruments	(396)	—	—	(396)
Long-term debt and other borrowing arrangements:				
Public bonds and notes	535,404	—	—	535,404
Capitalized lease obligations	—	—	672	672

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	December 29, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Short-term investments in available-for-sale securities	$—	$96,902	$—	$96,902
Derivative assets - commodity futures instruments	1,494	—	—	1,494
Derivative assets - commodity options instruments	—	1,395	—	1,395
Derivative assets - foreign currency instruments	1,214	—	—	1,214
Deferred compensation plan assets	7,208	—	—	7,208
Derivative liabilities - commodity futures instruments	(1,728)	—	—	(1,728)
Long-term debt and other borrowing arrangements:				
Public bonds and notes	552,592	—	—	552,592
Term notes	—	—	424,650	424,650
Capitalized lease obligations	—	—	704	704

	Term Notes and Revolver		Capitalized Lease Obligations	
	Twenty-Six Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Change in Value of Level 3 Liabilities:	(In thousands)			
Balance, beginning of period	$424,650	$686,435	$704	$880
Borrowings	—	509,500	—	—
Payments	(410,099)	(762,091)	(66)	(61)
Change in fair value inputs	(14,551)	(7,620)	34	(32)
Balance, end of period	$—	$426,224	$672	$787

The valuation of financial assets and liabilities classified in Level 1 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. 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.

In addition to the fair value disclosure requirements related to financial instruments carried at fair value, accounting standards require interim disclosures regarding the fair value of all of the Company’s financial instruments. The methods and significant assumptions used to estimate the fair value of financial instruments and any changes in methods or significant assumptions from prior periods are also required to be disclosed. The carrying amounts and estimated fair values of financial assets and liabilities recorded in the Condensed Consolidated Balance Sheets consisted of the following:

	June 29, 2014		December 29, 2013		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Note Reference
		(In thousands)			
Short-term investments in available-for-sale securities	$—	$—	$96,902	$96,902	5
Derivative assets - commodity futures instruments	4,126	4,126	1,494	1,494	6
Derivative assets - commodity options instruments	16	16	1,395	1,395	6
Derivative assets - foreign currency instruments	—	—	1,214	1,214	6
Deferred compensation plan assets	7,189	7,189	7,208	7,208	
	(3,928)	(3,928)	(1,728)	(1,728)	6

Derivative liabilities - commodity futures instruments					
Derivative liabilities - commodity options instruments	(4,238)	(4,238)	—	—	6
Derivative liabilities - foreign currency instruments	(396)	(396)	—	—	6
Long-term debt and other borrowing arrangements	502,296	536,077	(912,233)	(977,946)	9

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Derivative assets were recorded at fair value based on quoted market prices and are included in the line item Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet. Deferred compensation plan assets were recorded at fair value based on quoted market prices and are included in the line item Other assets in the Condensed Consolidated Balance Sheets. Derivative liabilities were recorded at fair value based on quoted market prices and are included in the line item Accrued expenses and other current liabilities 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 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 June 29, 2014 or December 29, 2013, as applicable.

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. There were no significant fair value measurement losses recognized for such assets and liabilities in the periods reported.

3. TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	June 29, 2014	December 29, 2013
	(In thousands)	
Trade accounts receivable	$394,863	$369,715
Account receivable from JBS USA, LLC	4,376	2,388
Employee receivables	737	14
Notes receivable - current	1,200	—
Other receivables	11,100	11,005
Receivables, gross	412,276	383,122
Allowance for doubtful accounts	(3,034)	(4,056)
Receivables, net	$409,242	$379,066

4. INVENTORIES

Inventories consisted of the following:

	June 29, 2014	December 29, 2013
	(In thousands)	
Live chicken and hens	$397,300	$368,582
Feed, eggs and other	224,139	216,045
Finished chicken products	215,386	223,932
Total chicken inventories	836,825	808,559
Commercial feed and other	508	273
Total inventories	$837,333	$808,832

5. 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:

	June 29, 2014		December 29, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	$177,653	$177,653	$103,121	$103,124
Other	22,724	22,728	56	56
Short-term investments:				
Fixed income securities	$—	$—	$96,902	$96,902

All of the fixed income securities classified as cash and cash equivalents above mature within 90 days and all of the fixed income securities classified as short-term investments above mature within one year. The specific identification method is used to determine the cost of each security sold and each amount reclassified out of accumulated other comprehensive loss to earnings. Gross realized gains recognized during the thirteen and twenty-six weeks ended June 29, 2014 related to the Company's available-for-sale securities totaled approximately $0.1 million and $0.3 million, respectively. No gross realized losses were recognized during the thirteen and twenty-six weeks ended June 29, 2014 and no gross realized gains or losses were recognized during the thirteen and twenty-six weeks ended June 30, 2013. Proceeds received from the sale or maturity of available-for-sale securities during the twenty-six weeks ended June 29, 2014 and June 30, 2013 are disclosed in the Condensed Consolidated Statements of Cash Flows. Net unrealized holding gains and losses on the Company's available-for-sale securities recognized during the twenty-six weeks ended June 29, 2014 and June 30, 2013 that have been included in accumulated other comprehensive loss and the net amount of gains and losses reclassified out of accumulated other comprehensive loss to earnings during the twenty-six weeks ended June 29, 2014 and June 30, 2013 are disclosed in “Note 12. Stockholders' Equity.”

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes various raw materials in its operations, including corn, soybean meal, soybean oil, sorghum 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 approximately the next 12 months. The Company may purchase longer-term derivative financial instruments on particular commodities if deemed appropriate.

The Company has operations in Mexico and, therefore, has exposure to translational foreign exchange risk when the financial results of those operations are translated to U.S. dollars. Generally, the Company purchases derivative financial instruments such as foreign currency forward contracts to manage this translational foreign exchange risk.

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 transaction 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 Income. The Company recognized net losses of $6.1 million and net gains of $8.9 million related to changes in the fair value of its derivative financial instruments during the thirteen weeks ended June 29, 2014 and June 30, 2013, respectively. We also recognized net losses of $14.1 million and net gains of $13.8 million related to changes in the fair value of our derivative financial instruments during the twenty-six weeks ended June 29, 2014 and June 30, 2013, respectively.

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

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	June 29, 2014	December 29, 2013
	(Fair values in thousands)	
Fair values:		
Commodity derivative assets	$4,142	$2,889
Commodity derivative liabilities	(8,166)	(1,728)
Cash collateral posted with brokers	18,370	4,142
Foreign currency derivative assets	—	1,214
Foreign currency derivative liabilities	(396)	—
Derivatives coverage[(a)]:		
Corn	(4.4)%	1.1%
Soybean meal	(27.2)%	(3.6)%
Period through which stated percent of needs are covered:		
Corn	September 2015	September 2015
Soybean meal	December 2014	July 2014

(a) Derivatives coverage is the percent of anticipated commodity needs covered by outstanding derivative instruments through a specified date.

7. PROPERTY, PLANT AND EQUIPMENT

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

	June 29, 2014	December 29, 2013
	(In thousands)	
Land	$66,268	$66,071
Buildings	1,081,577	1,077,859
Machinery and equipment	1,516,362	1,502,968
Autos and trucks	55,104	55,779
Construction-in-progress	108,453	66,926
PP&E, gross	2,827,764	2,769,603
Accumulated depreciation	(1,653,896)	(1,617,792)
PP&E, net	$1,173,868	$1,151,811

The Company recognized depreciation expense of $33.9 million and $34.2 million during the thirteen weeks ended June 29, 2014 and June 30, 2013, respectively. We also recognized depreciation expense of $67.2 million and $68.0 million during the twenty-six weeks ended June 29, 2014 and June 30, 2013, respectively.

During the twenty-six weeks ended June 29, 2014, we spent $90.8 million on capital projects and transferred $49.4 million of completed projects from construction-in-progress to depreciable assets. Capital expenditures were primarily incurred during the twenty-six weeks ended June 29, 2014 to improve efficiencies and reduce costs in the U.S. and to expand capacity in Mexico.

During the thirteen and twenty-six weeks ended June 29, 2014, the Company sold certain PP&E for cash of $2.8 million and $4.3 million, respectively, and recognized net gains on these sales of $1.9 million and $1.4 million, respectively. PP&E sold in 2014 included a warehouse, a commercial building and a vehicle maintenance center in Texas, an office building in Mexico City and miscellaneous equipment. During the thirteen and twenty-six weeks ended June 30, 2013, the Company sold certain PP&E for cash of $1.2 million and $2.9 million, respectively, and recognized net gains on these sales of $0.1 million and $2.1 million, respectively. PP&E sold in 2013 included vehicle maintenance centers in Arkansas and Texas and miscellaneous equipment.

During the thirteen and twenty-six weeks ended June 29, 2014, the Company scrapped certain unused or obsolete PP&E and recognized net losses of $0.2 million and $0.3 million, respectively. During the thirteen and twenty-six weeks ended June 30, 2013, the Company also scrapped certain unused or obsolete PP&E and recognized net losses of approximately $1.3 million and $1.3 million, respectively.

Management has committed to the sale of certain properties and related assets, including, but not limited to, processing plants in Pennsylvania and Louisiana and other miscellaneous assets, 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

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be consummated within the next 12 months. At June 29, 2014 and December 29, 2013, the Company reported properties and related assets totaling $5.4 million and $7.0 million, respectively, in the line item Assets held for sale on its Condensed Consolidated Balance Sheets. The Company tested the recoverability of its assets held for sale and determined that the aggregate carrying amount of each asset group was recoverable over the remaining life of the primary asset in that asset group.

The Company has closed or idled various processing complexes, processing plants, hatcheries and broiler farms throughout the U.S. Neither the Board of Directors nor JBS USA 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 June 29, 2014, the carrying amount of these idled assets was $75.4 million based on depreciable value of $185.4 million and accumulated depreciation of $110.0 million.

The Company last tested the recoverability of its long-lived assets held and used in December 2013. 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 twenty-six weeks ended June 29, 2014 that required the Company to test its long-lived assets held and used for recoverability.

8. CURRENT LIABILITIES

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

	June 29, 2014	December 29, 2013
	(In thousands)	
Accounts payable:		
Trade accounts	$332,584	$313,266
Book overdrafts	52,875	55,378
Other payables	2,007	1,716
Total accounts payable	387,466	370,360
Accounts payable to JBS USA, LLC	4,632	3,934
Accrued expenses and other current liabilities:		
Compensation and benefits	109,984	100,965
Interest and debt-related fees	2,304	7,558
Insurance and self-insured claims	90,366	99,244
Derivative liabilities:		
Futures	3,928	1,729
Options	4,238	—
Foreign currency	396	—
Other accrued expenses	79,643	73,859
Total accrued expenses and other current liabilities	290,859	283,355
	$682,957	$657,649

9. LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt and other borrowing arrangements consisted of the following components:

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	Maturity	June 29, 2014	December 29, 2013
		(In thousands)	
Senior notes, at 7 $^{7}/_{8}$%, net of unaccreted discount	2018	$497,985	$497,757
U.S. Credit Facility (defined below):			
The U.S. Credit Facility Term B-1 note payable at 2.4375%	2014	—	204,880
The U.S. Credit Facility Term B-2 note payable at 9.00%	2014	—	205,219
Other	Various	4,311	4,377
Long-term debt		502,296	912,233
Less: Current maturities of long-term debt		(257)	(410,234)
Long-term debt, less current maturities		$502,039	$501,999

Senior and Subordinated Notes

At June 29, 2014, the Company had an aggregate principal balance of $500.0 million of 7 $^{7}/_{8}$% senior unsecured notes due 2018 (the “2018 Notes”) outstanding that are registered under the Securities Act of 1933. The 2018 Notes are unsecured obligations of the Company and are guaranteed by one of the Company’s subsidiaries. Interest is payable on December 15 and June 15 of each year, commencing on June 15, 2011. Additionally, the Company had an aggregate principal balance of $3.6 million of 7 $^{5}/_{8}$% senior unsecured notes due 2015 and 8 $^{3}/_{8}$% senior subordinated unsecured notes due 2017 outstanding at June 29, 2014.

On June 23, 2011, the Company entered into a Subordinated Loan Agreement with JBS USA (the “Subordinated Loan Agreement”). Pursuant to the terms of the Subordinated Loan Agreement, the Company agreed to reimburse JBS USA up to $56.5 million for draws upon any letters of credit issued for JBS USA's account that support certain obligations of the Company or its subsidiaries. JBS USA agreed to arrange for letters of credit to be issued on its account in the amount of $56.5 million to an insurance company serving the Company in order to allow that insurance company to return cash it held as collateral against potential workers compensation, auto and general liability claims. In return for providing this letter of credit, the Company has agreed to reimburse JBS USA for the letter of credit cost the Company would otherwise incur under its U.S. Credit Facility (as defined below). In the thirteen and twenty-six weeks ended June 29, 2014, the Company reimbursed JBS USA $0.3 million and $0.7 million, respectively, for letter of credit costs. As of June 29, 2014, the Company has accrued an obligation of $0.1 million to reimburse JBS USA for letter of credit costs incurred on its behalf. There remains no other commitment to make advances by JBS USA under the Subordinated Loan Agreement.

U.S. Credit Facility

Pilgrim’s and certain of its subsidiaries entered into a credit agreement (the “U.S. Credit Facility”) with CoBank, ACB, as administrative agent and collateral agent, and other lenders party thereto, which was amended and restated on August 7, 2013. As of June 29, 2014, the U.S. Credit Facility provided for a $700.0 million revolving credit facility and a delayed draw term loan commitment of up to $400 million (the “Delayed Draw Term Loans”). The Company can draw upon the Delayed Draw Term Loan commitment, in one or more advances, between May 1, 2014 and December 28, 2014. The U.S. Credit Facility also includes an accordion feature that allows us, at any time, to increase the aggregate revolving loan commitment by up to an additional $250.0 million and to increase the aggregate Delayed Draw Term Loan commitment by up to an additional $500.0 million, in each case subject to the satisfaction of certain conditions, including obtaining the lenders’ agreement to participate in the increase and an aggregate limit on all commitments under the U.S. Credit Facility of $1.85 billion. The U.S. Credit Facility also provides for a $100 million sub-limit for swingline loans and a $200 million sub-limit for letters of credit. The revolving loan commitment under the U.S. Credit Facility matures on August 7, 2018. Any Delayed Draw Term Loans would be payable in quarterly installments beginning in fiscal year 2015 equal to 1.875% of the principal outstanding as of December 28, 2014, with all remaining principal and interest due at maturity on August 7, 2018.

On December 28, 2009, the Company paid loan costs totaling $50.0 million related to the U.S. Credit Facility that it recognized as an asset on its balance sheet. On August 7, 2013, the Company paid loan costs totaling $5.0 million

related to the amendment and restatement to the U.S. Credit Facility that is recognized as an asset on its balance sheet. The Company amortizes these capitalized costs to interest expense over the life of the U.S. Credit Facility. Subsequent to the end of each fiscal year, a portion of our cash flow was required to be used to repay outstanding principal amounts under the Term B loans. With respect to 2013, the Company paid $204.9 million of its cash flow toward the outstanding principal under the Term B-1 loans on December 30, 2013 and paid $205.2 million of its cash flow toward the outstanding principal under the Term B-2 loans on April 28, 2014. Following the April 28, 2014 payment, the Company had no outstanding principal

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under the Term B loans. The U.S. Credit Facility also requires 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 U.S. Credit Facility.

Actual borrowings by the Company under the revolving credit commitment component of the U.S. 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 of June 29, 2014, the applicable borrowing base was $700 million. The amount available for borrowing under the revolving loan commitment was $679.9 million. The Company had letters of credit of $20.1 million and no outstanding borrowings under the revolving loan commitment as of June 29, 2014.

The U.S. Credit Facility contains financial covenants and various other covenants that may adversely affect our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain restricted payments, consummate certain assets sales, enter into certain transactions with JBS USA and our other affiliates, merge, consolidate and/or sell or dispose of all or substantially all of our assets. The U.S. Credit Facility requires the Company to comply with a minimum level of tangible net worth covenant. The Company is currently in compliance with this financial covenant. All other financial covenants were eliminated in connection with the August 7, 2013 amendment and restatement to the U.S. Credit Facility. The U.S. Credit Facility also provides that the Company may not incur capital expenditures in excess of $350.0 million in any fiscal year.

All obligations under the U.S. Credit Facility are unconditionally guaranteed by certain of the Company’s subsidiaries and are secured by a first priority lien on (i) the accounts receivable and inventories of the Company and its non-Mexico subsidiaries, (ii) 65% of the equity interests in the Company’s direct foreign subsidiaries and 100% of the equity interests in the Company’s other subsidiaries, (iii) substantially all of the personal property and intangibles of the borrowers and guarantors under the U.S. Credit Facility and (iv) substantially all of the real estate and fixed assets of the Company and the guarantor subsidiaries under the U.S. Credit Facility.

Mexico Credit Facility

On October 19, 2011, Avícola Pilgrim's Pride de México, S.A. de C.V. (“Avicola”), Pilgrim's Pride S. de R.L. de C.V. and certain Mexican subsidiaries entered into an amended and restated credit agreement (the “Mexico ING Credit Facility”) with ING Bank (México), S.A. Institución de Banca Múltiple, ING Grupo Financiero, as lender and ING Capital LLC, as administrative agent. The Mexico ING Credit Facility was secured by substantially all of the assets of the Company's Mexican subsidiaries. As of June 29, 2014, the U.S. dollar-equivalent of the loan commitment under the Mexico ING Credit Facility was $43.0 million. There were no outstanding borrowings under the Mexico ING Credit Facility at June 29, 2014. The Mexico ING Credit Facility was terminated on July 23, 2014.

On July 23, 2014, Avícola and certain Mexican subsidiaries entered into an unsecured credit agreement (the “Mexico Bancomer Credit Facility”) with BBVA Bancomer, S.A. Institución de Banca Multiple, Grupo Financiero BBVA Bancomer, as lender. The loan commitment under the Mexico Bancomer Credit Facility is 560.0 million Mexican pesos. Outstanding borrowings under the Mexico Bancomer Credit Facility will accrue interest at a rate equal to the TIIE rate plus 1.05%. The Mexico Bancomer Credit Facility will mature on July 23, 2017. There are currently no outstanding borrowings under the Mexico Bancomer Credit Facility .

10. INCOME TAXES

The Company recorded income tax expense of $151.2 million, a 34.4% effective tax rate, for the twenty-six weeks ended June 29, 2014, compared to income tax expense of $18.6 million, a 7.1% effective tax rate, for the twenty-six weeks ended June 30, 2013. The income tax expense recognized for the twenty-six weeks ended June 29, 2014 was primarily the result of the tax expense recorded on the Company's year-to-date income. The income tax expense recognized for the twenty-six weeks ended June 30, 2013 was primarily the result of the tax expense recorded on the company's year-to-date income offset by a decrease in valuation allowance as a result of year-to-date earnings.

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 carry back and carry forward periods), projected future taxable income and tax-planning strategies in making this

assessment. As of June 29, 2014, the Company does not believe it has sufficient positive evidence to conclude that realization of its federal capital loss carry forwards and a portion of its foreign net deferred tax assets are more likely than not to be realized.

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For the twenty-six weeks ended June 29, 2014, there is tax benefit of $5.7 million reflected in other comprehensive income. There was no tax benefit reflected in other comprehensive income for the twenty-six weeks ended June 30, 2013 because the Company had a valuation allowance.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by taxing authorities for years prior to 2008 and is no longer subject to Mexico income tax examinations by taxing authorities for years prior to 2008.

The Company is pursuing the IRS' amended proof of claim relating to the tax year ended June 26, 2004 for Gold Kist Inc. ("Gold Kist"). See "Note 15. Commitments and Contingencies" for additional information.

11. 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, nonqualified defined benefit retirement plans, a defined benefit postretirement life insurance plan and defined contribution retirement savings plans. Expenses recognized under all of these retirement plans totaled $1.4 million and $1.9 million in the thirteen weeks ended June 29, 2014 and June 30, 2013, respectively. Expenses recognized under all of these retirement plans totaled $2.8 million and $3.8 million in the twenty-six weeks ended June 29, 2014 and June 30, 2013, respectively.

Net defined benefit pension and other postretirement costs included the following components:

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	June 29, 2014		June 30, 2013		June 29, 2014		June 30, 2013	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
	(In thousands)							
Service cost	$—	$—	$10	$—	$—	$—	$20	$—
Interest cost	2,026	20	1,989	19	4,052	40	3,977	39
Estimated return on plan assets	(1,594)	—	(1,350)	—	(3,187)	—	(2,699)	—
Amortization of net loss (gain)	14	—	251	—	28	—	501	—
Net costs	$446	$20	$900	$19	$893	$40	$1,799	$39

During the thirteen and twenty-six weeks ended June 29, 2014, the Company contributed $1.8 million and $3.4 million, respectively, to its defined benefit plans.

The Company remeasures both plan assets and obligations on a quarterly basis.

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.

12. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

The following tables provide information regarding the changes in accumulated other comprehensive loss:

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	Twenty-Six Weeks Ended June 29, 2014[(a)]			Twenty-Six Weeks Ended June 30, 2013[(a)]
	Losses Related to Pension and Other Postretirement Benefits	Unrealized Holding Gains on Available-for-Sale Securities	Total	Losses Related to Pension and Other Postretirement Benefits
	(In thousands)			
Balance, beginning of period	$(45,797)	$ 62	$(45,735)	$(68,511)
Other comprehensive income (loss) before reclassifications	(9,432)	69	(9,363)	35,300
Amounts reclassified from accumulated other comprehensive loss to net income	17	(98)	(81)	501
Net current period other comprehensive income (loss)	(9,415)	(29)	(9,444)	35,801
Balance, end of period	$(55,212)	$ 33	$(55,179)	$(32,710)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to accumulated other comprehensive loss.

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss[(a)]		Affected Line Item in the Condensed Consolidated Statements of Operations
	Twenty-Six Weeks Ended June 29, 2014	Twenty-Six Weeks Ended June 30, 2013	
	(In thousands)		
Realized gain on sale of securities	$157	$—	Selling, general and administrative expense
Amortization of defined benefit pension and other postretirement plan actuarial losses:			
Union employees pension plan[(b)(d)]	—	(18)	Cost of sales
Legacy Gold Kist plans[(c)(d)]	(28)	(483)	Selling, general and administrative expense
Total before tax	129	(501)	
Tax benefit (expense)	(48)	—	
Total reclassification for the period	$81	(501)	

(a) Amounts in parentheses represent debits to results of operations.

(b) The Company sponsors the Pilgrim's Pride Retirement Plan for Union Employees (the "Union Plan"), a qualified defined benefit pension plan covering certain locations or work groups with collective bargaining agreements.

(c) The Company sponsors the Pilgrim's Pride Plan for Legacy Gold Kist Employees, a qualified defined benefit pension plan covering certain eligible U.S. employees who were employed at locations that the Company purchased through its acquisition of Gold Kist in 2007, the Former Gold Kist Inc. Supplemental Executive Retirement Plan, a nonqualified defined benefit retirement plan covering certain former Gold Kist executives, the Former Gold Kist Inc. Directors' Emeriti Plan, a nonqualified defined benefit retirement plan covering certain former Gold Kist directors , and the Gold Kist Inc. Retiree Life Insurance Plan, a defined benefit postretirement life insurance plan covering certain retired Gold Kist employees (collectively, the "Legacy Gold Kist Plans").

(d) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. See "Note 11. Pension and Other Postretirement Benefits" to the Condensed Consolidated Financial

Statements.

Restrictions on Retained Earnings

Both The U.S. Credit Facility and the indenture governing the 2018 Notes restrict, but do not prohibit, the Company from declaring dividends.

13. INCENTIVE COMPENSATION

The Company sponsors a short-term incentive plan that provides the grant of either cash or share-based bonus awards payable upon achievement of specified performance goals (the "STIP"). Full-time, salaried exempt employees of the Company and its affiliates who are selected by the administering committee are eligible to participate in the STIP. The Company has accrued $15.3 million in costs related to the STIP at June 29, 2014 related to cash bonus awards that could potentially be awarded during the remainder of 2014 and 2015.

The Company also sponsors a performance-based, omnibus long-term incentive plan that provides for the grant of a broad range of long-term equity-based and cash-based awards to the Company's officers and other employees, members of the Board and any consultants (the "LTIP"). The equity-based awards that may be granted under the LTIP include "incentive stock options," within the meaning of the Internal Revenue Code, nonqualified stock options, stock appreciation rights, restricted stock awards

(“RSAs”) and restricted stock units (“RSUs”). At June 29, 2014, we have reserved approximately 6.6 million shares of common stock for future issuance under the LTIP.

The following awards existed during the twenty-six weeks ended June 29, 2014:

Award Type	Benefit Plan	Award Quantity	Grant Date	Vesting Condition	Vesting Date	Estimated Forfeiture Rate		Settlement Method
RSA	Employment Agreement	100,000	January 14, 2011	Service	January 3, 2014	—	%	Stock
RSA	LTIP	72,675	August 27, 2012	Service	April 27, 2014	—	%	Stock
RSU	LTIP	608,561	February 4, 2013	Service	December 31, 2014	9.66	%	Stock
RSA	LTIP	15,000	February 25, 2013	Service	February 24, 2015	—	%	Stock
RSA	LTIP	15,000	February 25, 2013	Service	February 24, 2016	—	%	Stock
RSU	LTIP	206,933	February 26, 2013	Service	December 31, 2014	—	%	Stock
RSU	LTIP	462,518	February 19, 2014	Service	December 31, 2016	13.49	%	Stock

The fair value of each RSA and RSU granted represents the closing price of the Company's common stock on the respective grant date.

Compensation costs and the income tax benefit recognized for our share-based compensation arrangements are included below:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(In thousands)			
Share-based compensation cost:				
Cost of sales	$152	$96	$171	$153
Selling, general and administrative expense	1,203	959	2,206	1,450
Total	$1,355	$1,055	$2,377	$1,603
Income tax benefit	$241	$211	$516	$337

The Company’s RSA and RSU activity is included below:

	Twenty-Six Weeks Ended June 29, 2014			Twenty-Six Weeks Ended June 30, 2013		
	Number		Weighted Average Grant Date Fair Value	Number		Weighted Average Grant Date Fair Value
	(In thousands, except weighted average fair values)					
RSAs:						
Outstanding at beginning of period	203		$6.59	273		$6.54
Granted	—		—	30		8.72
Vested	(173	)	6.22	(100	)	7.10
Outstanding at end of period	30		$8.72	203		$6.59
RSUs:						
Outstanding at beginning of period	729		$8.81	—		$—
Granted	462		16.70	815		8.82
Vested	—		—	—		—
Forfeited	(24	)	8.89	—		—
Outstanding at end of period	1,167		$11.93	815		$8.82

The total fair value of shares vested during the twenty-six weeks ended June 29, 2014 and June 30, 2013 was $1.1 million and $0.7 million, respectively.

At June 29, 2014, the total unrecognized compensation cost related to all nonvested awards was $9.8 million. That cost is expected to be recognized over a weighted average period of 2.0 years.

Historically, we have issued new shares to satisfy award conversions.

14. RELATED PARTY TRANSACTIONS

Pilgrim's has been and, in some cases, continues to be a party to certain transactions with affiliated persons and our current and former directors and executive officers. Company management has analyzed the terms of all contracts executed with related parties and believes that they are substantially similar to, and contain terms no less favorable to us than, those obtainable from unaffiliated parties.

On December 28, 2009, JBS USA became the holder of the majority of the common stock of the Company. As of June 29, 2014, JBS USA beneficially owned 75.5% of the total outstanding shares of our common stock.

Transactions with JBS USA and JBS USA, LLC (a JBS USA subsidiary) recognized in the Condensed Consolidated Statements of Income are summarized below:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(In thousands)		(In thousands)	
JBS USA:				
Letter of credit fees[(a)]	335	592	670	1,184
JBS USA, LLC:				
Purchases from JBS USA, LLC[(b)]	28,350	25,956	53,339	40,790
Expenditures paid by JBS USA, LLC on behalf of Pilgrim's Pride Corporation(c)	6,456	10,459	18,914	23,378
Sales to JBS USA, LLC[(b)]	18,116	19,148	33,471	35,267
Expenditures paid by Pilgrim's Pride Corporation on behalf of JBS USA, LLC(c)	773	225	1,306	683

(a) Beginning on October 26, 2011, JBS USA arranged for letters of credit to be issued on its account in the amount of $56.5 million to an insurance company on our behalf in order to allow that insurance company to return cash it held as collateral against potential liability claims. We agreed to reimburse JBS USA up to $56.5 million for potential draws upon these letters of credit. We reimburse JBS USA for the letter of credit costs we would have otherwise incurred under our credit facilities. During 2014, we have paid JBS USA $0.7 million for letter of credit costs. As of June 29, 2014, the Company has accrued an obligation of $0.1 million to reimburse JBS USA for letter of credit costs incurred on its behalf.

(b) We routinely execute transactions to both purchase products from JBS USA, LLC and sell products to them. As of June 29, 2014 and December 29, 2013, the outstanding payable to JBS USA, LLC was $4.6 million and $3.9 million, respectively. As of June 29, 2014 and December 29, 2013, the outstanding receivable from JBS USA, LLC was $4.4 million and $2.4 million, respectively. As of June 29, 2014, approximately $2.1 million of goods from JBS USA, LLC were in transit and not reflected on our Condensed Consolidated Balance Sheet.

(c) On January 19, 2010, the Company entered into an agreement with JBS USA, LLC in order to allocate costs associated with JBS USA, LLC'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, LLC 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, LLC 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 JBS USA, LLC on behalf of the Company will be reimbursed by the Company and expenditures paid by the Company on behalf of JBS USA, LLC will be reimbursed by JBS USA, LLC. This agreement expires on May 5, 2015.

On June 13, 2013, PPC entered into an inventory purchase agreement with two of its Mexican subsidiaries, Incubadora Hidalgo S. de R. L. de C.V. (“Incubadora”), and Pilgrim's Pride S. de R.L. de C.V. (“PPSRLCV”), under which Incubadora, and PPSRLCV disbursed $100.0 million to PPC as a non-refundable advance payment towards the purchase of inventory. The agreement expired on June 13, 2014. During the term of this agreement, Incubadora, and PPSRLCV purchased inventory from PPC through the ordinary course of business. The price for the inventory was determined as the fair market value of the inventory at the time of the purchase less a discount of 2.1863%. These purchases reduced the advance payment until the advance payment amount was exhausted. On June 13, 2014, the inventory purchase agreement was amended to increase the discount to 3.21% and extend the maturity date to June 13, 2015. Transactions and balances resulting from this agreement eliminate upon consolidation.

15. 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.

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, Pilgrim's and six of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court for the Northern District of Texas, Fort Worth Division ("Bankruptcy Court"). The cases were jointly administered under Case No. 08-45664. The Company emerged from Chapter 11 on December 28, 2009. The Company is the named defendant in several pre-petition lawsuits that, as of June 29, 2014, have not been resolved. Among the claims presently pending are 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. These claims were 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 claims, 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.

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 and made false representations to induce the plaintiffs into building chicken farms and entering into chicken growing agreements with the Company. In the case styled Shelia Adams, et al. v. Pilgrim's Pride Corporation, on September 30, 2011, the trial court issued its findings of fact and conclusions of law stating that the Company violated section 192(e) of the Packers and Stockyards Act of 1921 by purportedly attempting to manipulate the price of chicken by idling the El Dorado, Arkansas complex and rejecting the El Dorado growers' contracts. The trial court awarded damages in the amount of $25.8 million. Afterward, the Company filed post-judgment motions attacking the trial court's findings of fact and conclusions of law, which, on December 28, 2011, were granted in part and resulted in a reduction of the damages award from $25.8 million to $25.6 million. On January 19, 2012, the Company appealed the findings of fact and conclusions of law and decision concerning the post-judgment motions to the United States Fifth Circuit Court of Appeals (the "Fifth Circuit"). Oral argument occurred December 3, 2012. On August 27, 2013, the Fifth Circuit reversed the judgment, and entered a judgment in favor of the Company. Plaintiffs thereafter filed a petition for rehearing en banc. Plaintiffs' petition for rehearing was denied on October 15, 2013. On January 13, 2014, Plaintiffs filed a Petition for a Writ of Certiorari requesting the Supreme Court of the United States to accept their case for review. Plaintiff's petition for a Writ of Certiorari was denied on February 24, 2014. The Fifth Circuit's decision and prior favorable trial court rulings regarding the El Dorado growers' claims suggest that the likelihood of any recovery by growers remaining in the case is too remote to maintain the previously-recorded loss accrual. Therefore, the Company reversed the accrual on September 1, 2013.

As for the remaining chicken grower claims, the bench trial relating to the allegations asserted by the plaintiffs from the Farmerville, Louisiana complex began on July 16, 2012. That bench trial concluded on August 2, 2012, but the Marshall Court postponed its ruling until the appeals process regarding the allegations asserted by the El Dorado growers was exhausted. The bench trial relating to the claims asserted by the plaintiffs from the Nacogdoches, Texas

complex began on September 12, 2012, but was also postponed until the appeals process regarding the allegations asserted by the El Dorado growers was exhausted. The remaining bench trial for the plaintiffs from the De Queen and Batesville, Arkansas complexes was scheduled for October 29, 2012, but that trial date was canceled. Following the denial by the Supreme Court of the United States for a Writ of Certiorari related to the claims asserted by the plaintiffs from the El Dorado, Arkansas complex, the Marshall Court has requested briefing on the allegations asserted by the plaintiffs from the Farmerville, Louisiana complex and has scheduled trial proceedings for allegations asserted by the plaintiffs from the Nacogdoches complex on August 25, 2014 and allegations asserted by the plaintiffs from the De Queen and Batesville, Arkansas complexes on October 27, 2014. The Company intends to vigorously defend against these claims. Although the likelihood of financial loss related to the remaining growers’ claims is no longer considered reasonably possible, there can be no assurances that financial loss related to the remaining growers' claims may not be incurred or that other similar claims may not be brought against the Company.

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The United States Department of Treasury, IRS filed an amended proof of claim in the Bankruptcy Court pursuant to which the IRS asserted claims that total $74.7 million. We entered into two Stipulations with the IRS on December 12, 2012 that accounted for approximately $29.3 million of the amended proof of claim and should result in no additional tax due.

In connection with the remaining claim for approximately $45.4 million included in the amended proof of claim, we filed a petition in Tax Court on May 26, 2010 in response to a Notice of Deficiency that was issued to the Company as the successor in interest to Gold Kist. The Notice of Deficiency and the Tax Court proceeding relate to a loss that Gold Kist claimed for its tax year ended June 26, 2004. On December 11, 2013, the Tax Court issued its opinion in the Tax Court Case holding the loss that Gold Kist claimed for its tax year ended June 26, 2004 is capital in nature. On January 10, 2014, PPC filed both a Motion for Reconsideration and a Motion for Full Tax Court review of both its Motion for Reconsideration and any order issued in response to such motion. On March 10, 2014, the Tax Court denied both the Motion for Reconsideration and the Motion for Full Tax Court review. On April 14, 2014, the Company appealed the findings of fact and conclusions of law and decision concerning the post-judgment motions to the Fifth Circuit. The Company filed its opening brief with the Fifth Circuit on June 30, 2014.

Upon the initial filing of the Gold Kist tax return for the year ended June 30, 2004, the Company assessed the likelihood that the position related to the proceeding would be sustained upon examination and determined that it met the recognition threshold and the full amount of benefit was recognized. We continue to believe the position is more likely than not of being sustained. If adversely determined, the outcome could have a material effect on the Company's operating results and financial position.

16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On December 15, 2010, the Company sold the 2018 Notes. The 2018 Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed on a senior unsecured basis by Pilgrim’s Pride Corporation of West Virginia, Inc., a wholly owned subsidiary of the Company (the “Guarantor”). In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act of 1933, the following condensed consolidating financial statements present the financial position, results of operations and cash flows of the Company (referred to as “Parent” for the purpose of this note only) on a Parent-only basis, the Guarantor on a Guarantor-only basis, the combined non-Guarantor subsidiaries and elimination entries necessary to arrive at the information for the Parent, the Guarantor and non-Guarantor subsidiaries on a consolidated basis. Investments in subsidiaries are accounted for by the Company using the equity method for this presentation.

The tables below present the condensed consolidating balance sheets as of June 29, 2014 and December 29, 2013, as well as the condensed consolidating statements of operations and comprehensive income for the thirteen and twenty-six weeks ended June 29, 2014 and June 30, 2013, and the condensed consolidated statements of cash flows for the twenty-six weeks ended June 29, 2014 based on the guarantor structure.

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CONDENSED CONSOLIDATING BALANCE SHEETS
June 29, 2014

	Parent	Subsidiary Guarantor	Subsidiary Non-Guarantors	Eliminations/ Adjustments