PILGRIMS PRIDE CORP
Form 10-Q
October 30, 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 September 28, 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 October 29, 2014, was 259,029,033.

INDEX

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

1

2

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

	September 28, 2014	December 29, 2013
	(Unaudited)	
	(In thousands)	
Cash and cash equivalents	$868,597	$508,206
Investment in available-for-sale securities	—	96,902
Trade accounts and other receivables, less allowance for doubtful accounts	413,402	376,678
Account receivable from JBS USA, LLC	240	2,388
Inventories	817,892	808,832
Income taxes receivable	—	64,868
Current deferred tax assets	2,227	2,227
Prepaid expenses and other current assets	77,393	61,848
Assets held for sale	1,419	7,033
Total current assets	2,181,170	1,928,982
Deferred tax assets	85,213	18,921
Other long-lived assets	30,766	40,163
Identified intangible assets, net	28,219	32,525
Property, plant and equipment, net	1,180,414	1,151,811
Total assets	$3,505,782	$3,172,402
Accounts payable	$383,779	$370,360
Account payable to JBS USA, LLC	1,969	3,934
Accrued expenses and other current liabilities	307,153	283,355
Income taxes payable	176,153	—
Current deferred tax liabilities	15,070	15,515
Current maturities of long-term debt	260	410,234
Total current liabilities	884,384	1,083,398
Long-term debt, less current maturities	502,115	501,999
Deferred tax liabilities	—	13,944
Other long-term liabilities	88,490	80,459
Total liabilities	1,474,989	1,679,800
Common stock	2,590	2,590
Additional paid-in capital	1,656,623	1,653,119
Retained earnings (accumulated deficit)	424,305	(120,156)
Accumulated other comprehensive loss	(55,815)	(45,735)
Total Pilgrim's Pride Corporation stockholders' equity	2,027,703	1,489,818
Noncontrolling interest	3,090	2,784
Total stockholders' equity	2,030,793	1,492,602
Total liabilities and stockholders' equity	$3,505,782	$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		Thirty-Nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(In thousands, except per share data)			
Net sales	$2,268,048	$ 2,142,815	$6,472,929	$ 6,363,863
Cost of sales	1,817,783	1,906,242	5,458,083	5,726,348
Gross profit	450,265	236,573	1,014,846	637,515
Selling, general and administrative expense	44,629	43,797	138,437	131,888
Administrative restructuring charges	135	3,658	2,286	4,622
Operating income	405,501	189,118	874,123	501,005
Interest expense, net of capitalized interest	11,372	20,413	45,407	68,199
Interest income	(1,171)	(571)	(2,974)	(1,494)
Foreign currency transaction loss	6,414	2,682	4,932	4,771
Miscellaneous, net	(610)	(8)	(2,609)	(730)
Income before income taxes	389,496	166,602	829,367	430,259
Income tax expense	133,693	5,578	284,932	24,216
Net income	255,803	161,024	544,435	406,043
Less: Net income (loss) attributable to noncontrolling interests	(181)	107	(26)	(161)
Net income attributable to Pilgrim's Pride Corporation	$255,984	$ 160,917	$544,461	$ 406,204
Weighted average shares of common stock outstanding:				
Basic	258,999	258,826	258,966	258,825
Effect of dilutive common stock equivalents	523	560	482	341
Diluted	259,522	259,386	259,448	259,166
Net income attributable to Pilgrim's Pride Corporation per share of common stock outstanding:				
Basic	$0.99	$ 0.62	$2.10	$ 1.57
Diluted	$0.99	$ 0.62	$2.10	$ 1.57

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

4

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(In thousands)			
Net income	$255,803	$161,024	$544,435	$406,043
Other comprehensive income:				
Gain (loss) associated with available-for-sale securities, net of tax expense of $(10), $0, $(30) and $0, respectively	17	—	(12)	—
Gain (loss) associated with pension and other postretirement benefits, net of tax benefit of $396, $0, $6,105 and $0, respectively	(653)	313	(10,068)	36,114
Total other comprehensive income (loss), net of tax	(636)	313	(10,080)	36,114
Comprehensive income	255,167	161,337	534,355	442,157
Less: Comprehensive income (loss) attributable to noncontrolling interests	(181)	107	(26)	(161)
Comprehensive income attributable to Pilgrim's Pride Corporation	$255,348	$161,230	$534,381	$442,318

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

5

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	—	—	—	544,461	—	(26)	544,435
Other comprehensive loss, net of tax	—	—	—	—	(10,080)	—	(10,080)
Issuance of subsidiary common stock	—	—	—	—	—	332	332
Share-based compensation plans:							
Requisite service period recognition	—	—	3,504	—	—	—	3,504
Balance at September 28, 2014	259,029	$2,590	$1,656,623	$ 424,305	$ (55,815)	$ 3,090	$2,030,793
Balance at December 30, 2012	258,999	$2,590	$1,642,003	$ (669,711)	$ (68,511)	$ 2,626	$908,997
Net income	—	—	—	406,204	—	(161)	406,043
Other comprehensive income, net of tax					36,114		36,114
Share-based compensation plans:							
Common stock issued under compensation plans	30	—	—	—	—	—	—
Requisite service period recognition	—	—	2,415	—	—	—	2,415
Balance at September 29, 2013	259,029	2,590	$1,644,418	$ (263,507)	$ (32,397)	$ 2,465	$1,353,569

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)

	Thirty-Nine Weeks Ended September 28, 2014	September 29, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$544,435	$406,043
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	112,740	113,853
Foreign currency transaction loss	8,585	3,734
Accretion of bond discount	342	342
Asset impairment	—	3,457
Gain on property disposals	(1,112)	(509)
Gain on investment securities	(49)	—
Share-based compensation	3,504	2,415
Deferred income tax benefit	(79,619)	—
Changes in operating assets and liabilities:		
Trade accounts and other receivables	(35,785)	(25,458)
Inventories	(10,339)	39,421
Prepaid expenses and other current assets	(16,694)	(17,304)
Accounts payable, accrued expenses and other current liabilities	36,686	69,895
Income taxes	239,944	(1,818)
Deposits	—	1,898
Long-term pension and other postretirement obligations	(1,764)	(3,174)
Other operating assets and liabilities	1,534	3,921
Cash provided by operating activities	802,408	596,716
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(131,349)	(76,293)
Purchases of investment securities	(55,100)	—
Proceeds from sale or maturity of investment securities	152,050	—
Proceeds from property disposals	8,422	3,330
Cash used in investing activities	(25,977)	(72,963)
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	(410,199)	(758,283)
Sale of subsidiary common stock	332	—
Payment of capitalized loan costs	—	(5,006)
Cash used in financing activities	(409,867)	(257,689)
Effect of exchange rate changes on cash and cash equivalents	(6,173)	(3,928)
Increase in cash and cash equivalents	360,391	262,136
Cash and cash equivalents, beginning of period	508,206	68,180
Cash and cash equivalents, end of period	$868,597	$330,316

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

7

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 80 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 35,400 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 September 28, 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 thirty-nine weeks ended September 28, 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 loss 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.

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.

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 September 28, 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:

	September 28, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Derivative assets - commodity futures instruments	$5,125	$—	$—	$5,125
Derivative assets - commodity options instruments	—	62	—	62
Derivative assets - foreign currency instruments	1,278	—	—	1,278
Deferred compensation plan assets	7,218	—	—	7,218
Derivative liabilities - commodity futures instruments	(5,350)	—	—	(5,350)
Derivative liabilities - commodity options instruments	—	(1,013)	—	(1,013)
Long-term debt and other borrowing arrangements:				
Public bonds and notes	525,335	—	—	525,335
Capitalized lease obligations	—	—	627	627

Table of Contents

	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	
	Thirty-Nine Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 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)	(100)	(92)
Change in fair value inputs	(14,551)	(6,983)	23	—
Balance, end of period	$—	$426,861	$627	$788

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:

	September 28, 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	5,125	5,125	1,494	1,494	6
Derivative assets - commodity options instruments	62	62	1,395	1,395	6
Derivative assets - foreign currency instruments	1,278	1,278	1,214	1,214	6
Deferred compensation plan assets	7,218	7,218	7,208	7,208	

Derivative liabilities - commodity futures instruments	(5,350)	(5,350)	(1,728)	(1,728)	6
Derivative liabilities - commodity options instruments	(1,013)	(1,013)	—	—	6
Long-term debt and other borrowing arrangements	(502,376)	(525,962)	(912,233)	(977,946)	9

10

Table of Contents

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 September 28, 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:

	September 28, 2014	December 29, 2013
	(In thousands)	
Trade accounts receivable	$405,520	$369,715
Account receivable from JBS USA, LLC	240	2,388
Employee receivables	—	14
Notes receivable - current	1,145	—
Other receivables	9,467	11,005
Receivables, gross	416,372	383,122
Allowance for doubtful accounts	(2,730)	(4,056)
Receivables, net	$413,642	$379,066

4. INVENTORIES

Inventories consisted of the following:

	September 28, 2014	December 29, 2013
	(In thousands)	
Live chicken and hens	$384,120	$368,582
Feed, eggs and other	213,035	216,045
Finished chicken products	220,157	223,932
Total chicken inventories	817,312	808,559
Commercial feed and other	580	273
Total inventories	$817,892	$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:

	September 28, 2014		December 29, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	$433,413	$433,413	$103,121	$103,124
Other	19,577	19,577	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 thirty-nine weeks ended September 28, 2014 related to the Company's available-for-sale securities totaled approximately $0.1 million and $0.3 million, respectively. Gross realized losses recognized during the thirteen and thirty-nine weeks ended September 28, 2014 related to the Company's available-for-sale securities totaled approximately $7,700 and $8,100, respectively. No gross realized gains or losses were recognized during the thirteen and thirty-nine weeks ended September 29, 2013. Proceeds received from the sale or maturity of available-for-sale securities during the thirty-nine weeks ended September 28, 2014 and September 29, 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 thirty-nine weeks ended September 28, 2014 and September 29, 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 thirty-nine weeks ended September 28, 2014 and September 29, 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 gains of $28.0 million and $8.0 million related to changes in the fair value of its derivative financial instruments during the thirteen weeks ended September 28, 2014 and September 29, 2013, respectively. We also recognized net gains of $14.0 million and $21.9 million related to changes in the fair value of our derivative financial instruments during the thirty-nine weeks ended September 28, 2014 and September 29, 2013, respectively.

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

12

Table of Contents

	September 28, 2014	December 29, 2013
	(Fair values in thousands)	
Fair values:		
Commodity derivative assets	$5,187	$2,889
Commodity derivative liabilities	(6,363)	(1,728)
Cash collateral posted with brokers	8,040	4,142
Foreign currency derivative assets	1,278	1,214
Derivatives coverage[(a)]:		
Corn	2.0 %	1.1 %
Soybean meal	1.3 %	(3.6)%
Period through which stated percent of needs are covered:		
Corn	July 2016	September 2015
Soybean meal	July 2015	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:

	September 28, 2014	December 29, 2013
	(In thousands)	
Land	$66,283	$66,071
Buildings	1,083,380	1,077,859
Machinery and equipment	1,530,264	1,502,968
Autos and trucks	55,083	55,779
Construction-in-progress	130,229	66,926
PP&E, gross	2,865,239	2,769,603
Accumulated depreciation	(1,684,825)	(1,617,792)
PP&E, net	$1,180,414	$1,151,811

The Company recognized depreciation expense of $33.9 million and $34.3 million during the thirteen weeks ended September 28, 2014 and September 29, 2013, respectively. We also recognized depreciation expense of $101.1 million and $102.3 million during the thirty-nine weeks ended September 28, 2014 and September 29, 2013, respectively.

During the thirty-nine weeks ended September 28, 2014, we spent $131.3 million on capital projects and transferred $67.3 million of completed projects from construction-in-progress to depreciable assets. Capital expenditures were primarily incurred during the thirty-nine weeks ended September 28, 2014 to improve efficiencies and reduce costs in the U.S. and to expand capacity in Mexico.

During the thirteen and thirty-nine weeks ended September 28, 2014, the Company sold certain PP&E for cash of $4.1 million and $8.4 million, respectively, and recognized a net loss of $26,700 and a net gain of $1.1 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, a processing plant in Franconia, Pennsylvania, and miscellaneous equipment. During the thirteen and thirty-nine weeks ended September 29, 2013, the Company sold certain PP&E for cash of $0.4 million and $3.3 million, respectively, and recognized net gains on these sales of $0.1 million and $2.0 million, respectively. PP&E sold in 2013 included vehicle maintenance centers in Arkansas and Texas and miscellaneous equipment.

Management has committed to the sale of certain properties and related assets, including, but not limited to, a processing plant in 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 be consummated within the next 12 months. At September 28, 2014 and December 29, 2013, the Company reported properties and related assets totaling $1.4 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.

Table of Contents

The Company has closed or idled various processing complexes, processing plants, hatcheries, broiler farms, and feed mills 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 September 28, 2014, the carrying amount of these idled assets was $73.0 million based on depreciable value of $184.6 million and accumulated depreciation of $111.6 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 thirty-nine weeks ended September 28, 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:

	September 28, 2014	December 29, 2013
	(In thousands)	
Accounts payable:		
Trade accounts	$331,832	$313,266
Book overdrafts	50,045	55,378
Other payables	1,902	1,716
Total accounts payable	383,779	370,360
Accounts payable to JBS USA, LLC	1,969	3,934
Accrued expenses and other current liabilities:		
Compensation and benefits	106,329	100,965
Interest and debt-related fees	12,094	7,558
Insurance and self-insured claims	88,679	99,244
Derivative liabilities:		
Futures	5,350	1,729
Options	1,012	—
Other accrued expenses	93,689	73,859
Total accrued expenses and other current liabilities	307,153	283,355
	$692,901	$657,649

9. LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

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

	Maturity	September 28, 2014	December 29, 2013
		(In thousands)	
Senior notes, at 7 $^7/_8$%, net of unaccreted discount	2018	$498,098	$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	4,277	4,377
Long-term debt		502,375	912,233
Less: Current maturities of long-term debt		(260)	(410,234)

Long-term debt, less current maturities	$502,115	$501,999

Senior and Subordinated Notes

At September 28, 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 September 28, 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 thirty-nine weeks ended September 28, 2014, the Company reimbursed JBS USA $0.3 million and $1.0 million, respectively, for letter of credit costs. As of September 28, 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 September 28, 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 until 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 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 September 28, 2014, 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 September 28, 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

Table of Contents

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 July 23, 2014, Avícola and certain Mexican subsidiaries entered into an unsecured credit agreement (the “Mexico Credit Facility”) with BBVA Bancomer, S.A. Institución de Banca Multiple, Grupo Financiero BBVA Bancomer, as lender. The loan commitment under the Mexico Credit Facility is 560.0 million Mexican pesos. Outstanding borrowings under the Mexico Credit Facility will accrue interest at a rate equal to the TIIE rate plus 1.05%. The Mexico Credit Facility will mature on July 23, 2017. As of September 28, 2014, the U.S. dollar-equivalent of the loan commitment under the Mexico Credit Facility was $41.7 million. There are currently no outstanding borrowings under the Mexico Credit Facility. The Mexico Credit facility replaced our amended and restated credit agreement with ING Bank (México), S.A. Institucíon de Banca Múltiple, ING Grupo Financiero, as lender and ING Capital LLC, as administrative agent, which was terminated on July 23, 2014.

10. INCOME TAXES

The Company recorded income tax expense of $284.9 million, a 34.4% effective tax rate, for the thirty-nine weeks ended September 28, 2014 compared to income tax expense of $24.2 million, a 5.6% effective tax rate, for the thirty-nine weeks ended September 29, 2013. The income tax expense recognized for the thirty-nine weeks ended September 28, 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 thirty-nine weeks ended September 29, 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 September 28, 2014, the Company did not believe it had 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.

For the thirty-nine weeks ended September 28, 2014, there is tax benefit of $6.1 million reflected in other comprehensive income. There was no tax benefit reflected in other comprehensive income for the thirty-nine weeks ended September 29, 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 2009.

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 $1.5 million and $1.9 million in the thirteen weeks ended September 28, 2014 and September 29, 2013, respectively. Expenses recognized under all of these retirement plans totaled $4.3 million and $5.7 million in the thirty-nine weeks ended September 28, 2014 and September 29, 2013, respectively.

Table of Contents

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

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	September 28, 2014		September 29, 2013		September 28, 2014		September 29, 2013	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
	(In thousands)							
Service cost	$—	$—	$(20)	$—	$—	$—	$—	$—
Interest cost	2,026	20	1,988	20	6,078	60	5,965	59
Estimated return on plan assets	(1,593)	—	(1,349)	—	(4,780)	—	(4,048)	—
Amortization of net loss (gain)	14	—	250	—	42	—	751	—
Net costs	$447	$20	$869	$20	$1,340	$60	$2,668	$59

During the thirteen and thirty-nine weeks ended September 28, 2014, the Company contributed $8.2 million and $11.6 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:

	Thirty-Nine Weeks Ended September 28, 2014[(a)]			Thirty-Nine Weeks Ended September 29, 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	(10,094)	169	(9,925)	35,363
Amounts reclassified from accumulated other comprehensive loss to net income	26	(181)	(155)	751
Net current period other comprehensive income (loss)	(10,068)	(12)	(10,080)	36,114
Balance, end of period	$(55,865)	$ 50	$(55,815)	$(32,397)

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

Table of Contents

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss[a] Thirty-Nine Weeks Ended September 28, 2014 (In thousands)	Thirty-Nine Weeks Ended September 29, 2013	Affected Line Item in the Condensed Consolidated Statements of Operations
Realized gain on sale of securities	$290	$—	Selling, general and administrative expense
Amortization of defined benefit pension and other postretirement plan actuarial losses:			
Union employees pension plan[b][d]	—	(27)	Cost of sales
Legacy Gold Kist plans[c][d]	(42)	(724)	Selling, general and administrative expense
Total before tax	248	(751)	
Tax benefit (expense)	(93)	—	
Total reclassification for the period	$155	(751)	

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

(b) The Company sponsors the Pilgrim's Pride Retirement Plan for Union Employees, 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.

(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 $22.6 million in costs related to the STIP at September 28, 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 of Directors 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 September 28, 2014, we have reserved approximately 6.6 million shares of common stock for future issuance under the LTIP.

The following awards existed during the thirty-nine weeks ended September 28, 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	—		