

PILGRIMS PRIDE CORP  
Form 10-Q  
July 30, 2015

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

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

For the quarterly period ended June 28, 2015

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

80634-9038

(Address of principal executive offices)

(Zip code)

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

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒

Accelerated Filer ☐

☐

Non-accelerated Filer ☐ (Do not check if a smaller reporting  
company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares outstanding of the issuer's common stock, \$0.01 par value per share, as of July 29, 2015, was 259,685,145.

INDEX

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1.	<u>Condensed Consolidated Financial Statements</u>	<u>2</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>2</u>
	<u>June 28, 2015 and December 28, 2014</u>	
	<u>Condensed Consolidated Statements of Income</u>	<u>3</u>
	<u>Thirteen and Twenty-Six Weeks Ended June 28, 2015 and June 29, 2014</u>	
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
	<u>Thirteen and Twenty-Six Weeks Ended June 28, 2015 and June 29, 2014</u>	
	<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>5</u>
	<u>Thirteen and Twenty-Six Weeks Ended June 28, 2015 and June 29, 2014</u>	
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
	<u>Thirteen and Twenty-Six Weeks Ended June 28, 2015 and June 29, 2014</u>	
	<u>Notes to Condensed Consolidated Financial Statements as of June 28, 2015</u>	<u>7</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u>
Item 4.	<u>Controls and Procedures</u>	<u>39</u>
	<u>PART II. OTHER INFORMATION</u>	<u>41</u>
Item 1.	<u>Legal Proceedings</u>	<u>41</u>
Item 1A.	<u>Risk Factors</u>	<u>43</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
Item 5.	<u>Other Information</u>	<u>43</u>
Item 6.	<u>Exhibits</u>	<u>44</u>
	<u>SIGNATURES</u>	<u>45</u>
	<u>EXHIBIT INDEX</u>	<u>46</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## PILGRIM'S PRIDE CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

	June 28, 2015 (Unaudited) (In thousands)	December 28, 2014
Cash and cash equivalents	\$574,194	\$576,143
Trade accounts and other receivables, less allowance for doubtful accounts	348,011	378,890
Account receivable from related parties	1,115	5,250
Inventories	787,113	790,305
Income taxes receivable	64,346	10,288
Current deferred tax assets	34,156	27,345
Prepaid expenses and other current assets	88,204	95,439
Assets held for sale	6,580	1,419
Total current assets	1,903,719	1,885,079
Other long-lived assets	30,489	24,406
Identified intangible assets, net	23,912	26,783
Property, plant and equipment, net	1,189,121	1,182,795
Total assets	\$3,147,241	\$3,119,063
Accounts payable	\$469,135	\$399,486
Account payable to related parties	4,384	4,862
Accrued expenses and other current liabilities	296,668	311,879
Income taxes payable	22,902	3,068
Current deferred tax liabilities	25,359	25,301
Current maturities of long-term debt	117	262
Total current liabilities	818,565	744,858
Long-term debt, less current maturities	1,000,420	3,980
Deferred tax liabilities	80,836	76,216
Other long-term liabilities	87,467	97,208
Total liabilities	1,987,288	922,262
Common stock	2,597	2,590
Additional paid-in capital	1,671,449	1,662,354
Retained earnings (accumulated deficit)	(461,274)	) 591,492
Accumulated other comprehensive loss	(55,838)	) (62,541)
Total Pilgrim's Pride Corporation stockholders' equity	1,156,934	2,193,895
Noncontrolling interest	3,019	2,906
Total stockholders' equity	1,159,953	2,196,801
Total liabilities and stockholders' equity	\$3,147,241	\$3,119,063
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 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
	(In thousands, except per share data)			
Net sales	\$2,053,876	\$2,186,816	\$4,106,795	\$4,204,881
Cost of sales	1,621,856	1,837,341	3,297,655	3,640,300
Gross profit	432,020	349,475	809,140	564,581
Selling, general and administrative expense	48,834	48,607	98,341	93,808
Administrative restructuring charges	4,813	438	4,813	2,151
Operating income	378,373	300,430	705,986	468,622
Interest expense, net of capitalized interest	11,514	14,562	16,369	34,035
Interest income	(1,277)	(992)	(2,767)	(1,803)
Foreign currency transaction loss	2,059	(1,819)	11,033	(1,482)
Miscellaneous, net	(4,651)	(993)	(5,064)	(1,999)
Income before income taxes	370,728	289,672	686,415	439,871
Income tax expense	129,104	99,227	240,598	151,239
Net income	241,624	190,445	445,817	288,632
Less: Net income attributable to noncontrolling interests	135	85	113	155
Net income attributable to Pilgrim's Pride Corporation	\$241,489	\$190,360	\$445,704	\$288,477
Weighted average shares of common stock outstanding:				
Basic	259,685	258,977	259,669	258,950
Effect of dilutive common stock equivalents	212	597	226	560
Diluted	259,897	259,574	259,895	259,510
Net income attributable to Pilgrim's Pride Corporation per share of common stock outstanding:				
Basic	\$0.93	\$0.73	\$1.72	\$1.11
Diluted	\$0.93	\$0.73	\$1.71	\$1.11

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 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
	(In thousands)			
Net income	\$241,624	\$190,445	\$445,817	\$288,632
Other comprehensive income (loss):				
Gain (loss) associated with available-for-sale securities, net of tax benefit (expense) of \$1, \$(3), \$13 and \$(20), respectively	(1	) 7	(20	) (29
Gain (loss) associated with pension and other postretirement benefits, net of tax benefit (expense) of \$(5,331), \$2,200, \$(4,077) and \$5,709, respectively	8,792	(3,629	) 6,723	(9,415
Total other comprehensive income (loss), net of tax	8,791	(3,622	) 6,703	(9,444
Comprehensive income	250,415	186,823	452,520	279,188
Less: Comprehensive income attributable to noncontrolling interests	135	85	113	155
Comprehensive income attributable to Pilgrim's Pride Corporation	\$250,280	\$186,738	\$452,407	\$279,033

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		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	Amount					
	(In thousands)						
Balance at December 28, 2014	259,029	\$2,590	\$1,662,354	\$ 591,492	\$ (62,541 )	\$ 2,906	\$2,196,801
Net income	—	—	—	445,704	—	113	445,817
Other comprehensive income, net of tax	—	—	—	—	6,703	—	6,703
Share-based compensation plans:							
Common stock issued under compensation plans	671	7	(7 )	—	—	—	—
Common stock forfeited under compensation plans	(15 )	—	(85 )	—	—	—	(85 )
Requisite service period recognition	—	—	1,353	—	—	—	1,353
Tax benefit related to share-based compensation	—	—	7,834	—	—	—	7,834
Special cash dividend	—	—	—	(1,498,470 )	—	—	(1,498,470 )
Balance at June 28, 2015	259,685	\$2,597	\$1,671,449	\$ (461,274 )	\$ (55,838 )	\$ 3,019	\$1,159,953
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
The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.							

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

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

	Twenty-Six Weeks Ended	
	June 28, 2015	June 29, 2014
	(In thousands)	
Cash flows from operating activities:		
Net income	\$445,817	\$288,632
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	75,070	76,521
Foreign currency transaction gain	—	(1,077)
Accretion of bond discount	—	228
Asset impairment	4,813	—
Gain on property disposals	(1,331)	(1,139)
Gain on investment securities	—	(48)
Share-based compensation	1,268	2,377
Deferred income tax benefit	(4,781)	(79,619)
Changes in operating assets and liabilities:		
Trade accounts and other receivables	35,014	(29,702)
Inventories	3,192	(28,257)
Prepaid expenses and other current assets	7,236	(20,054)
Accounts payable, accrued expenses and other current liabilities	53,960	24,918
Income taxes	(35,554)	182,948
Long-term pension and other postretirement obligations	966	94
Other operating assets and liabilities	2,433	369
Cash provided by operating activities	588,103	416,191
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(87,694)	(90,814)
Purchases of investment securities	—	(37,000)
Proceeds from sale or maturity of investment securities	—	133,950
Proceeds from property disposals	2,115	4,357
Cash provided by (used in) investing activities	(85,579)	10,493
Cash flows from financing activities:		
Proceeds from revolving line of credit and long-term borrowings	1,680,000	—
Payments on revolving line of credit, long-term borrowings and capital lease obligations	(683,705)	(410,165)
Tax benefit related to share-based compensation	7,834	—
Sale of subsidiary common stock	—	332
Payment of capitalized loan costs	(10,132)	—
Payment of special cash dividends	(1,498,470)	—
Cash used in financing activities	(504,473)	(409,833)
Effect of exchange rate changes on cash and cash equivalents	—	2,355
Increase (decrease) in cash and cash equivalents	(1,949)	19,206
Cash and cash equivalents, beginning of period	576,143	508,206
Cash and cash equivalents, end of period	\$574,194	\$527,412

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 one of 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 95 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. As of June 28, 2015, Pilgrim's had approximately 33,900 employees and 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 3,800 contract growers supply poultry for the Company's operations. As of June 28, 2015, JBS USA Holdings, Inc. ("JBS USA"), an indirect subsidiary of Brazil-based JBS S.A., beneficially owned 75.3% 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 twenty-six weeks ended June 28, 2015 are not necessarily indicative of the results that may be expected for the year ending December 27, 2015. 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 28, 2014.

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, 2015) 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.

7

---

## 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. In June 2015, the FASB agreed to defer by one year the mandatory effective date of this standard, but will also provide entities the option to adopt the new guidance as of the original effective date. The provisions of the new guidance will be effective as of the beginning of our 2018 fiscal year, but we have the option to adopt the guidance as early as 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 either a transition approach to implement the standard or an adoption date.

In April 2015, the FASB issued new presentation guidance for debt issuance costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items. The provisions of the new guidance will be effective as of the beginning of our 2016 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements.

In July 2015, the FASB issued new accounting guidance on the subsequent measurement of inventory, which, in an effort to simplify unnecessarily complicated accounting guidance that can result in several potential outcomes, requires an entity to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Current accounting guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. 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.

### 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 28, 2015 and December 28, 2014, 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 following items were measured at fair value on a recurring basis:

8

---

Table of Contents

	June 28, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Derivative assets - commodity futures instruments	\$13,759	\$—	\$—	\$13,759
Derivative assets - commodity options instruments	6,642	—	—	6,642
Derivative liabilities - commodity futures instruments	(18,982 )	—	—	(18,982 )
Derivative liabilities - commodity options instruments	(2,136 )	—	—	(2,136 )
Derivative liabilities - foreign currency instruments	(87 )	—	—	(87 )
Fixed-rate senior notes payable at 5.75%	(506,250 )	—	—	(506,250 )

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 28, 2015		December 28, 2014		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Note Reference
	(In thousands)				
Derivative assets - commodity futures instruments	\$13,759	\$13,759	\$8,416	\$8,416	6
Derivative assets - commodity options instruments	6,642	6,642	—	—	6
Derivative assets - foreign currency instruments	—	—	2,563	2,563	6
Derivative liabilities - commodity futures instruments	(18,982 )	(18,982 )	(8,580 )	(8,580 )	6
Derivative liabilities - commodity options instruments	(2,136 )	(2,136 )	(14,103 )	(14,103 )	6
Derivative liabilities - foreign currency instruments	(87 )	(87 )	—	—	6
Fixed-rate senior notes payable	(500,000 )	(506,250 )	(3,633 )	(3,979 )	9

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. 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 28, 2015 or December 28, 2014, 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.

9

---

Table of Contents**3. TRADE ACCOUNTS AND OTHER RECEIVABLES**

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

	June 28, 2015	December 28, 2014
	(In thousands)	
Trade accounts receivable	\$340,768	\$371,268
Notes receivable - current	970	1,088
Other receivables	8,885	9,059
Receivables, gross	350,623	381,415
Allowance for doubtful accounts	(2,612)	(2,525)
Receivables, net	\$348,011	\$378,890

Account receivable from related parties<sup>(a)</sup> \$1,115 \$5,250

(a) Additional information regarding accounts receivable from related parties is included in "Note 14. Related Party Transactions."

**4. INVENTORIES**

Inventories consisted of the following:

	June 28, 2015	December 28, 2014
	(In thousands)	
Live chicken and hens	\$367,373	\$363,438
Feed, eggs and other	188,096	198,681
Finished chicken products	231,225	227,649
Total chicken inventories	786,694	789,768
Commercial feed and other	419	537
Total inventories	\$787,113	\$790,305

**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 28, 2015		December 28, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	\$102,079	\$102,079	\$204,286	\$204,286
Other	499	499	80	80

All of the securities classified as cash and cash equivalents above mature within 90 days. 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 28, 2015 and the thirteen and twenty-six weeks ended June 29, 2014 related to the Company's available-for-sale securities totaled approximately \$67,200, \$197,100, \$56,100 and \$257,600, respectively. Gross realized losses recognized during the thirteen and twenty-six weeks ended June 28, 2015 related to the Company's available-for-sale securities totaled approximately \$11,700 and \$20,000, respectively. No gross realized losses were recognized during the thirteen and twenty-six weeks ended June 29, 2014. Proceeds received from the sale or maturity of available-for-sale securities during the twenty-six weeks ended June 28, 2015 and June 29, 2014 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 28, 2015 and June 29, 2014 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 28, 2015 and June 29, 2014 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 \$5.6 million and net losses of \$6.1 million related to changes in the fair value of its derivative financial instruments during the thirteen weeks ended June 28, 2015 and June 29, 2014. We also recognized net gains of \$29.0 million and net losses of \$14.1 million related to changes in the fair value of its derivative financial instruments during the twenty-six weeks ended June 28, 2015 and June 29, 2014, respectively. Information regarding the Company's outstanding derivative instruments and cash collateral posted with (owed to) brokers is included in the following table:

	June 28, 2015	December 28, 2014
	(Fair values in thousands)	
Fair values:		
Commodity derivative assets	\$20,401	\$8,416
Commodity derivative liabilities	(21,118)	(22,683)
Cash collateral posted with brokers	10,845	25,205
Foreign currency derivative assets	—	2,563
Foreign currency derivative liabilities	(87)	—
Derivatives coverage <sup>(a)</sup> :		
Corn	2.3	(8.2)
Soybean meal	(11.1)	(16.1)
Period through which stated percent of needs are covered:		
Corn	March 2017	September 2016
Soybean meal	December 2015	July 2015

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



Table of Contents