

PILGRIMS PRIDE CORP
Form 10-K
November 19, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 29, 2007

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.)

4845 US Hwy 271 North
Pittsburg, Texas
(Address of principal executive offices)

75686-0093
(Zip code)

Registrant's telephone number, including area code: (903) 434-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Pilgrim's Pride Corporation

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

The aggregate market value of the Registrant's Common Stock, \$0.01 par value, held by non-affiliates of the Registrant as of March 31, 2007, was \$1,340,874,524. For purposes of the foregoing calculation only, all directors, executive officers and 5% beneficial owners have been deemed affiliates.

Number of shares of the Registrant's Common Stock outstanding as of November 13, 2007, was 66,555,733.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the annual meeting of stockholders to be held January 30, 2008 are incorporated by reference into Part III.

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PART I

Item 1. Business

(a) General Development of Business

Overview

The Company, which was incorporated in Texas in 1968 and reincorporated in Delaware in 1986, is the successor to a partnership founded in 1946 as a retail feed store. Over the years, the Company grew through both internal growth and various acquisitions of farming operations and poultry processors including the significant acquisitions in fiscal 2004 and 2007 discussed below. We are the world's largest chicken company and have one of the best known brand names in the chicken industry. In the U.S., we produce both prepared and fresh chicken and fresh turkey; while in Mexico and Puerto Rico, we exclusively produce fresh chicken. Through vertical integration, we control the breeding, hatching and growing of chickens. We also control the processing, preparation, packaging and sale of our product lines, which we believe has made us one of the highest quality, lowest-cost producers of chicken in North America. We have consistently applied a long-term business strategy of focusing our growth efforts on the higher-value, higher-margin prepared foods products and have become a recognized industry leader in this market segment. Accordingly, our sales efforts have traditionally been targeted to the foodservice industry, principally chain restaurants and food processors, and have more recently been targeted to retailers seeking value-added products. We have continually made investments to ensure our prepared foods capabilities remain state-of-the-art and have complemented these investments with a substantial and successful research and development effort. In fiscal 2007, we sold 7.7 billion pounds of dressed chicken and 151.7 million pounds of dressed turkey and generated net sales of \$7.6 billion. In fiscal 2007, our U.S. operations, including Puerto Rico, accounted for 93.3% of our net sales, with the remaining 6.7% arising from our Mexico operations.

Recent Business Acquisition Activities

On December 27, 2006, we acquired a majority of the outstanding common stock of Gold Kist Inc. ("Gold Kist") through a tender offer. We subsequently acquired all remaining Gold Kist shares and, on January 9, 2007, Gold Kist became our wholly owned subsidiary. We sometimes refer to this acquisition as the "fiscal 2007 acquisition". For financial reporting purposes, we have not included the operating results and cash flows of Gold Kist in our consolidated financial statements for the period from December 27, 2006 through December 30, 2006. The operating results and cash flows of Gold Kist from December 27, 2006 through December 30, 2006 were not material. Gold Kist operated a fully-integrated chicken production business that included live production, processing, marketing and distribution. This acquisition has positioned us as the world's leading chicken producer, and that position has provided us with enhanced abilities to compete more efficiently and provide even better customer service, expand our geographic reach and customer base, further pursue value-added and prepared foods opportunities, and offer long-term growth opportunities for our stockholders, employees and growers. We are also better positioned to compete in the industry both internationally and in the U.S. as consolidations occur.

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On November 23, 2003, we completed the purchase of all the outstanding stock of the corporations represented as the ConAgra Foods, Inc. chicken division ("ConAgra chicken division"). We sometimes refer to this acquisition as the "fiscal 2004 acquisition." The acquired business has been included in our results of operations since the date of the acquisition. The acquisition provided us with additional lines of specialty prepared chicken products, well-known brands, well-established distributor relationships and Southeastern U.S. processing facilities. The acquisition also included the largest distributor of chicken products in Puerto Rico.

Strategy

Our objectives are (1) to increase sales, profit margins and earnings and (2) to outpace the growth of, and maintain our leadership position in, the chicken industry. To achieve these goals, we plan to continue pursuing the following strategies:

- Capitalize on significant scale with leading industry position and brand recognition. We are the largest producer of chicken products in the U.S. We estimate that our U.S. market share, based on the total annual chicken production in the U.S., is approximately 25%, which is approximately 20% higher than the second largest competitor in the chicken industry. The complementary fit of markets, distributor relationships and geographic locations are a few of the many benefits we realized from our fiscal 2004 and 2007 acquisitions previously discussed. We believe the acquired businesses' established relationships with broad-line national distributors and retailers have enabled us to expand our customer base and provide nationwide distribution capabilities for all of our product lines. As a result, we believe we are one of only two U.S. chicken producers that can supply the growing demand for a broad range of price competitive standard and specialized products with well-known brand names on a nationwide basis from a single source supplier.
- Capitalize on attractive U.S. prepared foods market. We focus our U.S. growth initiatives on sales of prepared foods to the foodservice and value-added retail markets because they continue to be two of the fastest growing and most profitable segments in the poultry industry. Products sold to these market segments require further processing, which enables us to charge a premium for our products, reducing the impact of feed ingredient costs on our profitability and improving and stabilizing our profit margins. Feed ingredient costs typically decrease from approximately 33%-49% of total production cost for fresh chicken products to approximately 17%-24% for prepared chicken products. Due to increased demand from our customers and our fiscal 2004 and 2007 acquisitions, our sales of prepared chicken products grew from \$921.1 million in fiscal 2003 to \$2,492.4 million in fiscal 2007, a compounded annual growth rate of 28.3%. Prepared foods sales represented 39.5% of our total U.S. chicken revenues in fiscal 2007, which we believe provides us with a significant competitive advantage and reduces our exposure to feed price fluctuations. The addition of well-known brands, including Pierce® and Easy-Entre e®, from our fiscal 2004 acquisition significantly expanded our already sizeable prepared foods chicken offerings. Similarly, our acquisition of highly customized cooked chicken products, including breaded cutlets, sizzle strips and Wing-Dings®, for restaurants and specialty foodservice customers from this acquisition complemented our existing lines of pre-cooked

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breast fillets, tenderloins, burgers, nuggets, salads and other prepared products for institutional foodservice, fast-food and retail customers.

- Emphasize customer-driven research and technology. We have a long-standing reputation for customer-driven research and development in designing new products and implementing advanced processing technology. This enables us to better meet our customers' changing needs for product innovation, consistent quality and cost efficiency. In particular, customer-driven research and development is integral to our growth strategy for the prepared foods market in which customers continue to place greater importance on value-added services. Our research and development personnel often work directly with customers in developing products for them, which we believe helps promote long-term relationships.

- Enhance U.S. fresh chicken profitability through value-added, branded products. Our U.S. fresh chicken sales accounted for \$3,255.7 million, or 51.4%, of our U.S. chicken sales for fiscal 2007. In addition to maintaining the sales of traditional fresh chicken products, our strategy is to shift the mix of our U.S. fresh chicken products by continuing to increase sales of higher margin, faster growing products, such as fixed weight packaged products and marinated chicken and chicken parts, and to continually shift portions of this product mix into the higher value and margin prepared chicken products. Much of our fresh chicken products are sold under the Pilgrim's Pride® brand name, which is a well-known brand in the chicken industry.

- Improve operating efficiencies and increase capacity on a cost-effective basis. As production and sales grow, we continue to focus on improving operating efficiencies by investing in state-of-the-art technology and processes, training and our total quality management program. Specific initiatives include:

- standardizing lowest-cost production processes across our various facilities;

- centralizing purchasing and other shared services; and

- standardizing and upgrading technology where appropriate.

In addition, we have a proven history of increasing capacity while improving operating efficiencies at acquired properties in both the U.S. and Mexico. As a result, according to industry data, since 1993 we have consistently been one of the lower-cost producers of chicken.

- Continue to seek strategic acquisitions. We have pursued opportunities to expand through acquisitions in the past. We expect to continue to pursue acquisition opportunities in the future that would complement our existing businesses, broaden our production capabilities and/or improve our operating efficiencies.

- Capitalize on export opportunities. We intend to continue to focus on international opportunities to complement our U.S. chicken operations and capitalize on attractive export markets. According to the USDA, the export of U.S. chicken products increased 9.7%

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from 2002 through 2006. We believe U.S. chicken exports will continue to grow as worldwide demand increases for high-grade, low-cost meat protein sources. According to USDA data, the export market for chicken is expected to grow at a compounded annual growth rate of 1.8% from 2006 to 2011. Historically, we have targeted international markets to generate additional demand for our dark chicken meat, which is a natural by-product of our U.S. operations given our concentration on prepared foods products and the U.S. customers' general preference for white chicken meat. As part of this initiative, we have created a significant international distribution network into several markets, including Mexico, which we now utilize not only for dark chicken meat distribution, but also for various higher margin prepared foods and other poultry products. We employ both a direct international sales force and export brokers. Our key international markets include Eastern Europe, including Russia; the Far East, including China; and Mexico. We believe that we have substantial opportunities to expand our sales to these markets by capitalizing on direct international distribution channels supplemented by our existing export broker relationships. Our export sales accounted for approximately 10.1% and 21.1% of our U.S. chicken sales and pounds, respectively, for fiscal 2007.

(b) Financial Information About Segments

We operate in three reportable business segments as (1) a producer and seller of chicken products, (2) a producer and seller of turkey products and (3) a seller of other products. See a discussion of our business segments in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(c) Narrative Description of Business

Products
a n d
Markets

Our chicken products consist primarily of:

(1) Prepared chicken products, which are products such as portion-controlled breast fillets, tenderloins and strips, delicatessen products, salads, formed nuggets and patties and bone-in chicken parts. These products are sold either refrigerated or frozen and may be fully cooked, partially cooked or raw. In addition, these products are breaded or non-breaded and either pre-marinated or non-marinated.

(2) Fresh chicken, which is refrigerated (non-frozen) whole or cut-up chicken sold to the foodservice industry either pre-marinated or non-marinated. Fresh chicken also includes prepackaged case-ready chicken, which includes various combinations of freshly refrigerated, whole chickens and chicken parts in trays, bags or other consumer packs labeled and priced ready for the retail grocer's fresh meat counter.

(3) Export and other chicken products, which are primarily parts and whole chicken, either refrigerated or frozen for U.S. export or domestic use, and chicken prepared foods products for U.S. export.

Our turkey products consist primarily of fresh and frozen whole turkeys.

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Our chicken and turkey products are sold primarily to:

(1) Foodservice customers, which are customers such as chain restaurants, food processors, foodservice distributors and certain other institutions. We sell products to our foodservice customers ranging from portion-controlled refrigerated poultry parts to fully-cooked and frozen, breaded or non-breaded poultry parts or formed products.

(2) Retail customers, which are customers such as grocery store chains, wholesale clubs and other retail distributors. We sell to our retail customers branded, pre-packaged, cut-up and whole poultry, and fresh refrigerated or frozen whole poultry and poultry parts in trays, bags or other consumer packs.

(3) Export and other product customers, who purchase chicken products for export to Eastern Europe, including Russia; the Far East, including China; Mexico; and other world markets. Our export and other chicken products, with the exception of our exported prepared foods products, consist of whole chickens and chicken parts sold primarily in bulk, non-branded form, either refrigerated to distributors in the U.S. or frozen for distribution to export markets.

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(1) Other types of meat along with various other staples purchased and sold by our distribution centers as a convenience to our chicken customers who purchase through the distribution centers.

(2) The production and sale of table eggs, commercial feeds and related items, live hogs and proteins.

The following table sets forth, for the periods beginning with fiscal 2003, net sales attributable to each of our primary product lines and markets served with those products. Consistent with our long-term strategy, we emphasized our U.S. growth initiatives on sales of prepared foods products, primarily to the foodservice market. This product and market segment has experienced, and we believe will continue to experience, greater growth than fresh chicken products. We based the table on our internal sales reports and their classification of product types and customers.

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	Fiscal Year Ended				
	Sept. 29, 2007(a) (52 weeks)	Sept. 30, 2006 (52 weeks)	Oct. 1, 2005 (52 weeks)	Oct. 2, 2004(a) (53 weeks)	Sept. 27, 2003 (52 weeks)
U.S. Chicken Sales:	(in thousands)				
Prepared Foods:					
Foodservice	\$ 1,897,643	\$ 1,567,297	\$ 1,622,901	\$ 1,647,904	\$ 731,331
Retail	511,470	308,486	283,392	213,775	163,018
Total Prepared Foods	2,409,113	1,875,783	1,906,293	1,861,679	894,349
Fresh Chicken:					
Foodservice	2,280,057	1,388,451	1,509,189	1,328,883	474,251
Retail	975,659	496,560	612,081	653,798	257,911
Total Fresh Chicken	3,255,716	1,885,011	2,121,270	1,982,681	732,162
Export and Other:					
Export:					
Prepared Foods	83,317	64,338	59,473	34,735	26,714
Chicken	559,429	257,823	303,150	212,611	85,087
Total Export(b)	642,746	322,161	362,623	247,346	111,801
Other Chicken By-Products	20,779	15,448	21,083	(b)	(b)
Total Export and Other	663,525	337,609	383,706	247,346	111,801
Total U.S. Chicken	6,328,354	4,098,403	4,411,269	4,091,706	1,738,312
Mexico Chicken Sales:	488,466	418,745	403,353	362,442	349,305
Total Chicken Sales	6,816,820	4,517,148	4,814,622	4,454,148	2,087,617
U.S. Turkey Sales:					
Foodservice	14,025	30,269	73,908	120,676	138,405
Retail	104,239	96,968	125,741	154,289	154,552
	118,264	127,237	199,649	274,965	292,957
Export and other(b)	4,100	3,664	5,189	11,287	12,721
Total U.S. Turkey Sales	122,364	130,901	204,838	286,252	305,678
Other Products:					
United States	638,738	570,510	626,056	600,091	207,284
Mexico	20,677	17,006	20,759	23,232	18,766
Total Other Products	659,415	587,516	646,815	623,323	226,050
Total Net Sales	\$ 7,598,599	\$ 5,235,565	\$ 5,666,275	\$ 5,363,723	\$ 2,619,345
Total Chicken Prepared Foods	\$ 2,492,430	\$ 1,940,121	\$ 1,965,766	\$ 1,896,414	\$ 921,063

(a) The fiscal 2007 acquisition on December 27, 2006 and fiscal 2004 acquisition on November 23, 2003 have been accounted for as purchases. For financial reporting purposes, we have not included the operation results and cash flows of the fiscal 2007 acquisition in our consolidated financial statements for the period from December 27, 2006 through December 30, 2006. The operating results and cash flows of the fiscal 2007 acquisition from December 27,

2006 through December 30, 2006 were not material. The results of operations for the fiscal 2004 acquisition have been included in our consolidated results of operations since the acquisition date.

(b) The Export and Other category historically included the sal