PILGRIMS PRIDE CORP
Form 10-Q
August 02, 2018
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 July 1, 2018
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	75-1285071
(State or other jurisdiction of incorporation or organization)	(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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Number of shares outstanding of the issuer's common stock, $0.01 par value per share, as of August 1, 2018, was 248,980,659.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
PILGRIM'S PRIDE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 1, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	$640,842	$581,510
Restricted cash	33,185	8,021
Trade accounts and other receivables, less allowance for doubtful accounts	589,933	565,478
Accounts receivable from related parties	1,179	2,951
Inventories	1,190,017	1,255,070
Prepaid expenses and other current assets	132,820	102,550
Assets held for sale	2,904	708
Total current assets	2,590,880	2,516,288
Deferred tax assets	3,149	—
Other long-lived assets	18,276	18,165
Identified intangible assets, net	593,751	617,163
Goodwill	982,560	1,001,889
Property, plant and equipment, net	2,113,953	2,095,147
Total assets	$6,302,569	$6,248,652
Accounts payable	$815,696	$733,027
Accounts payable to related parties	26,941	2,889
Revenue contract liability	32,200	36,607
Accrued expenses and other current liabilities	407,442	410,152
Income taxes payable	60,174	222,073
Current maturities of long-term debt	44,606	47,775
Total current liabilities	1,387,059	1,452,523
Long-term debt, less current maturities	2,584,486	2,635,617
Deferred tax liabilities	196,561	208,492
Other long-term liabilities	80,045	96,359
Total liabilities	4,248,151	4,392,991
Common stock	2,604	2,602
Treasury stock	(231,758)	(231,758)
Additional paid-in capital	1,938,140	1,932,509
Retained earnings	399,902	173,943
Accumulated other comprehensive income (loss)	(63,584)	(31,140)
Total Pilgrim's Pride Corporation stockholders' equity	2,045,304	1,846,156
Noncontrolling interest	9,114	9,505
Total stockholders' equity	2,054,418	1,855,661
Total liabilities and stockholders' equity	$6,302,569	$6,248,652

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

PILGRIM'S PRIDE CORPORATION
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(In thousands, except per share data)			
Net sales	$2,836,713	$2,752,286	$5,583,391	$5,231,626
Cost of sales	2,562,491	2,277,454	5,021,504	4,500,410
Gross profit	274,222	474,832	561,887	731,216
Selling, general and administrative expense	87,975	92,148	173,258	181,808
Administrative restructuring charges	1,135	4,349	1,924	4,349
Operating income	185,112	378,335	386,705	545,059
Interest expense, net of capitalized interest	40,267	22,567	90,567	41,679
Interest income	(4,834)	(1,104)	(6,424)	(1,472)
Foreign currency transaction loss (gain)	5,630	(2,303)	3,909	(1,612)
Miscellaneous, net	(817)	(1,272)	(2,434)	(4,115)
Income before income taxes	144,866	360,447	301,087	510,579
Income tax expense	38,522	115,256	75,519	164,650
Net income	106,344	245,191	225,568	345,929
Less: Net income from Granite Holdings Sàrl prior to acquisition by Pilgrim's Pride Corporation	—	11,118	—	17,393
Less: Net income (loss) attributable to noncontrolling interests	(197)	432	(391)	974
Net income attributable to Pilgrim's Pride Corporation	$106,541	$233,641	$225,959	$327,562
Weighted average shares of Pilgrim's Pride Corporation common stock outstanding:				
Basic	248,981	248,753	248,909	248,722
Effect of dilutive common stock equivalents	76	220	116	228
Diluted	249,057	248,973	249,025	248,950
Net income attributable to Pilgrim's Pride Corporation per share of common stock outstanding:				
Basic	$0.43	$0.94	$0.91	$1.32
Diluted	$0.43	$0.94	$0.91	$1.32

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

PILGRIM'S PRIDE CORPORATION
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(In thousands)			
Net income	$106,344	$ 245,191	$225,568	$345,929
Other comprehensive income (loss):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	(92,696)	53,269	(40,131)	67,096
Income tax effect	1,661	—	1,624	—
Derivative financial instruments designated as cash flow hedges				
Gains (losses) arising during the period	(88)	640	(103)	718
Reclassification to net earnings for losses (gains) realized	222	(116)	472	(67)
Available-for-sale securities				
Gains arising during the period	858	—	1,232	—
Income tax effect	(209)	—	(300)	—
Reclassification to net earnings for gains realized	(727)	—	(899)	—
Income tax effect	177	—	219	—
Defined benefit plans				
Gains (losses) arising during the period	693	(6,362)	6,592	(4,471)
Income tax effect	(171)	2,401	(1,605)	1,687
Reclassification to net earnings of losses realized	300	233	601	466
Income tax effect	(73)	(88)	(146)	(176)
Total other comprehensive income (loss), net of tax	(90,053)	49,977	(32,444)	65,253
Comprehensive income	16,291	295,168	193,124	411,182
Less: Comprehensive income for Granite Holdings Sàrl prior to acquisition by Pilgrim's Pride Corporation	—	64,912	—	85,140
Less: Comprehensive income (loss) attributable to noncontrolling interests	(197)	432	(391)	974
Comprehensive income attributable to Pilgrim's Pride Corporation	$16,488	$ 229,824	$193,515	$325,068

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

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
	(In thousands)								
Pilgrim's Pride Corporation balance at December 31, 2017	260,168	$2,602	(11,416)	$(231,758)	$1,932,509	$173,943	$(31,140)	$9,505	$1,855,661
Net income (loss)	—	—	—	—	—	225,959	—	(391)	225,568
Other comprehensive income, net of tax	—	—	—	—	—	—	(32,444)	—	(32,444)
Share-based compensation plans:									
Common stock issued under compensation plans	228	2	—	—	(2)	—	—	—	—
Requisite service period recognition	—	—	—	—	5,633	—	—	—	5,633
Balance at July 1, 2018	260,396	$2,604	(11,416)	$(231,758)	$1,938,140	$399,902	$(63,584)	$9,114	$2,054,418
Pilgrim's Pride Corporation balance at December 25, 2016	259,682	$2,597	(10,636)	$(217,117)	$1,686,742	$(520,635)	$(64,243)	$9,403	$896,747
Granite Holdings Sàrl balance at December 25, 2016	13,000	304,691	—	—	1,413,590	(262,150)	(265,615)	(1,131)	1,189,385
Combined balance at December 25, 2016	272,682	307,288	(10,636)	(217,117)	3,100,332	(782,785)	(329,858)	8,272	2,086,132
Net income	—	—	—	—	—	344,955	—	974	345,929
Other comprehensive	—	—	—	—	—	—	65,253	—	65,253

income, net of tax									
Share-based compensation plans:									
Common stock issued under compensation plans	486	5	—	—	(5)	—	—	—	—
Requisite service period recognition	—	—	—	—	1,947	—	—	—	1,947
Common stock purchased under share repurchase program	—	—	(780)	(14,641)	—	—	—	—	(14,641)
Balance at June 25, 2017	273,168	$307,293	(11,416)	$(231,758)	$3,102,274	$(437,830)	$(264,605)	$9,246	$2,484,620

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

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

	Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$225,568	$345,929
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	139,479	132,613
Noncash loss on early extinguishment of debt	4,918	—
Foreign currency transaction loss related to borrowing arrangements	4,221	5,634
Amortization of premium related to Senior Notes	(334)	—
Accretion of discount related to Senior Notes	321	—
Asset impairment	573	3,534
Loss (gain) on property disposals	239	(768)
Gain on equity-method investments	(32)	(30)
Share-based compensation	5,633	1,947
Deferred income tax expense (benefit)	(11,927)	25,857
Changes in operating assets and liabilities:		
Trade accounts and other receivables	(31,913)	(93,391)
Inventories	60,303	(93,901)
Prepaid expenses and other current assets	(31,099)	(15,323)
Accounts payable, accrued expenses and other current liabilities	103,991	(46,506)
Income taxes	(161,571)	73,207
Long-term pension and other postretirement obligations	(5,323)	(3,916)
Other operating assets and liabilities	942	(1,337)
Cash provided by operating activities	303,989	333,549
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(155,188)	(197,989)
Purchase of acquired businesses, net of cash acquired	—	(359,698)
Proceeds from property disposals	1,205	1,466
Cash used in investing activities	(153,983)	(556,221)
Cash flows from financing activities:		
Proceeds from revolving line of credit and long-term borrowings	604,062	1,013,662
Payments on revolving line of credit, long-term borrowings and capital lease obligations	(673,452)	(591,904)
Proceeds from equity contribution under Tax Sharing Agreement between JBS USA Food Company Holdings and Pilgrim's Pride Corporation	5,558	5,038
Payment of capitalized loan costs	(5,708)	(2,777)
Purchase of common stock under share repurchase program	—	(14,641)
Cash provided by (used in) financing activities	(69,540)	409,378
Effect of exchange rate changes on cash and cash equivalents	4,030	9,273
Increase in cash, cash equivalents and restricted cash	84,496	195,979
Cash, cash equivalents and restricted cash, beginning of period	589,531	297,524
Cash, cash equivalents and restricted cash, end of period	$674,027	$493,503

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

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NOTES TO CONDENSED CONSOLIDATED AND COMBINED 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 c the largest chicken producers in the world, with operations in the United States ("U.S."), the United Kingdom ("U.K."), Mexico, France, Puerto Rico and the Netherlands. 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 countries listed above. Additionally, the Company exports chicken products to approximately 100 countries. Pilgrim's fresh chicken products consist of refrigerated (nonfrozen) whole chickens, whole cut-up chickens and selected chicken parts that are either marinated or non-marinated. The Company's prepared chicken products include fully cooked, ready-to-cook and individually frozen chicken parts, strips, nuggets and patties, some of which are either breaded or non-breaded and either marinated or non-marinated. The Company's other products include ready-to-eat meals, multi-protein frozen foods, vegetarian foods and desserts. 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 14 U.S. states, the U.K., Mexico, France, Puerto Rico and the Netherlands. As of July 1, 2018, Pilgrim's had approximately 51,600 employees and the capacity to process approximately 45.3 million birds per work week for a total of more than 12.8 billion pounds of live chicken annually. Approximately 5,200 contract growers supply poultry for the Company's operations. As of July 1, 2018, JBS S.A., through its indirect wholly-owned subsidiaries (together, "JBS"), beneficially owned 78.5% of the Company's outstanding common stock.

Condensed Consolidated and Combined Financial Statements

The accompanying unaudited condensed consolidated and combined financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments unless otherwise disclosed) considered necessary for a fair presentation have been included. Operating results for the thirteen and twenty-six weeks ended July 1, 2018 are not necessarily indicative of the results that may be expected for the year ending December 30, 2018. For further information, refer to the consolidated and combined financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017.

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, 2018) in the notes to these Condensed Consolidated and Combined Financial Statements applies to our fiscal year and not the calendar year.

On September 8, 2017, a subsidiary of the Company acquired 100% of the issued and outstanding shares of Granite Holdings Sàrl and its subsidiaries (together, "Moy Park") from JBS in a common-control transaction. Moy Park was acquired by JBS from an unrelated third party on September 30, 2015. The Condensed Consolidated and Combined Financial Statements presented for the thirteen and twenty-six weeks ended June 25, 2017 include the accounts of the Company and its majority-owned subsidiaries combined with the accounts of Moy Park. The Condensed Consolidated and Combined Financial Statements presented for the thirteen and twenty-six weeks ended July 1, 2018 and the Condensed Consolidated Balance Sheet presented as of December 31, 2017 include the accounts of the Company and its majority-owned subsidiaries, including Moy Park. We eliminate all significant affiliate accounts and transactions upon consolidation.

The Condensed Consolidated and Combined Financial Statements have been prepared in conformity with U.S. GAAP using management's best estimates and judgments. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments. Significant estimates made by the Company include the allowance for doubtful accounts, allowances for product claims and sales deductions, reserves related to inventory obsolescence or valuation, useful lives of long-lived assets, goodwill, valuation of deferred tax assets, insurance accruals, valuation of pension and other postretirement benefits obligations, income tax accruals, certain derivative positions and valuations of acquired businesses.

The functional currency of the Company's U.S. and Mexico operations and certain holding-company subsidiaries in Luxembourg, the U.K. and Ireland is the U.S. dollar. The functional currency of its U.K. operations is the British pound. The functional currency of the Company's operations in France and the Netherlands is the euro. For foreign currency-denominated

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entities other than the Company's Mexico operations, translation from local currencies into U.S. dollars is performed for most assets and liabilities using the exchange rates in effect as of the balance sheet date. Income and expense accounts are remeasured using average exchange rates for the period. Adjustments resulting from translation of these financial records are reflected as a separate component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets. For the Company's Mexico operations, remeasurement from the Mexican peso to U.S. dollars is performed for monetary assets and liabilities using the exchange rate in effect as of the balance sheet date. Remeasurement is performed for non-monetary assets using the historical exchange rate in effect on the date of each asset’s acquisition. Income and expense accounts are remeasured using average exchange rates for the period. Net adjustments resulting from remeasurement of these financial records are reflected in Foreign currency transaction losses (gains) in the Condensed Consolidated and Combined Statements of Income.

The Company reported an adjustment resulting from the translation of a British pound-denominated note payable owed to JBS as a component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheet as of July 1, 2018. The Company designated this note payable as a hedge of its net investment in Moy Park.

The Company or its subsidiaries may use derivatives for the purpose of mitigating exposure to changes in foreign currency exchange rates. Foreign currency transaction gains or losses are reported in the Condensed Consolidated and Combined Statements of Income.

We made the following reclassification to the Condensed Consolidated Balance Sheet presented as of December 31, 2017 in order to conform to the Condensed Consolidated Balance Sheet presented as of July 1, 2018:

	December 31, 2017		
	As Presented in 2017 Annual Report on Form 10-K	Adjustment Resulting from Adoption of FASB Guidance	As Presented in the Condensed Consolidated Balance Sheet
	(In thousands)		
Accounts payable	$762,444	$(29,417)	$ 733,027
Accrued expense and other current liabilities	417,342	(7,190)	410,152
Revenue contract liability	—	36,607	36,607

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 and Combined Statements of Cash Flows.

Restricted Cash

The Company is required to maintain cash balances with a broker as collateral for exchange traded futures contracts. These balances are classified as restricted cash as they are not available for use by the Company to fund daily operations. The balance of restricted cash may also include investments in U.S. Treasury Bills that qualify as cash equivalents, as required by the broker, to offset the obligation to return cash collateral.

The following table reconciles cash, cash equivalents and restricted cash as reported in the Condensed Consolidated Balance Sheets to the total of the same amounts shown in the Condensed Consolidated and Combined Statements of Cash Flows:

	July 1, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	$640,842	$581,510
Restricted cash	33,185	8,021

Total cash, cash equivalents and restricted cash shown in the Condensed Consolidated and Combined Statements of Cash Flows	$674,027	$589,531

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

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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.

We adopted this standard as of January 1, 2018, the beginning of our 2018 fiscal year, using the cumulative effect adjustment, often referred to as modified retrospective approach. Under this method, we did not restate the prior financial statements presented, and would record any adjustments in the opening balance sheet for January 2018. There was no cumulative effect to be recorded as an adjustment to the opening balance of retained earnings. The comparative information was not restated and continues to be presented under the accounting standards in effect for those periods. Additional disclosures will include the amount by which each financial statement line item is affected in the current reporting period during 2018, as compared to the prior guidance.

We expect minimal impact from the adoption of the new standard to the financial statements on a go forward basis, except for expanded disclosures. Revenue is currently recognized at destination and will continue to be recognized at point in time under the new guidance. Additional information regarding revenue recognition is included in "Note 13. Revenue Recognition."

In February 2016, the FASB issued new accounting guidance on lease arrangements, which, in an effort to increase transparency and comparability among organizations utilizing leasing, requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. This guidance also requires disclosures about the amount, timing and uncertainty of cash flows arising from leases. In transition, the entity is required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The provisions of the new guidance will be effective as of the beginning of our 2019 calendar year. We have elected to adopt the new standard as of the beginning of our 2019 fiscal year. We are currently assessing our leasing and other arrangements, and evaluating the impact of the new guidance on these arrangements and our financial statements. Implementation of a system solution to track, account for and provide required disclosures of leasing agreements is in process with completion expected prior to the required adoption date.

In June 2016, the FASB issued new accounting guidance on the measurement of credit losses on financial instruments, which, in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. The provisions of the new guidance will be effective as of the beginning of our 2020 fiscal year. Early adoption is permitted after our 2018 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected an adoption date.

In March 2017, the FASB issued new accounting guidance on the presentation of net periodic pension cost and net periodic postretirement benefit cost, which, in an effort to improve consistency and transparency, requires the service cost component of defined benefit pension cost and postretirement benefit cost ("net benefit cost") to be reported in the same line of the income statement as other compensation costs earned by the employee and the other components of net benefit cost to be reported below income from operations. The new guidance will be effective as of the beginning of our 2019 calender year with early adoption permitted. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected an adoption date.

In August 2017, the FASB issued an accounting standard update that simplifies the application of hedge accounting guidance in current GAAP and improves the reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. Among the simplification updates, the standard eliminates the requirement in current GAAP to separately recognize periodic hedge ineffectiveness. Mismatches between the changes in value of the hedged item and hedging instrument may still occur but they will no longer be separately reported. The standard requires the presentation of the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The standard is effective for annual and interim reporting periods beginning after December 15, 2018, but early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In February 2018, the FASB issued an accounting standard update that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act. The Company will need to decide whether to reclassify the stranded tax effects associated with the U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. If the Company chooses to reclassify we will need to calculate the amount of the reclassification and prepare the related disclosures The accounting standards is effective as of the beginning of our 2019 calendar year with early adoption permitted. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected an adoption date.

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In July 2018, the FASB issued an accounting standard update to improve non-employee share-based payment accounting. The accounting standard update more closely aligns the accounting for employee and non-employee share based payments. The accounting standards update is effective as of the beginning of our 2019 calendar year with early adoption permitted. We are currently evaluating the impacts of the new guidance on our financial statements and have not yet selected an adoption date.

2. BUSINESS ACQUISITION

On September 8, 2017, the Company purchased 100% of the issued and outstanding shares of Moy Park from JBS for cash of $301.3 million and a note payable to the seller in the amount of £562.5 million (the "JBS S.A. Promissory Note"). Moy Park is one of the top-ten food companies in the U.K., Northern Ireland's largest private sector business and one of Europe's leading poultry producers. With 4 fresh processing plants, 10 prepared foods cook plants, 3 feed mills, 6 hatcheries and 1 rendering facility currently operating in Northern Ireland, England, France and the Netherlands, Moy Park possesses the capacity to process approximately 6.1 million birds per seven-day work week, in addition to the capacity to produce approximately 460.0 million pounds of prepared foods per year. Its product portfolio comprises fresh and further processed poultry, ready-to-eat meals, breaded and multi-protein frozen foods, vegetarian foods and desserts, supplied to major food retailers and restaurant chains in Europe (including the U.K.). Moy Park has approximately 10,300 employees as of July 1, 2018. The Moy Park operations comprise our U.K. and Europe segment.

The acquisition was treated as a common-control transaction under U.S. GAAP. A common-control transaction is a transfer of net assets or an exchange of equity interests between entities under the control of the same parent. The accounting and reporting for a transaction between entities under common control is not to be considered a business combination under U.S. GAAP. Since there is no change in control over the net assets from the parent's perspective, there is no change in basis in the assets or liabilities. Therefore, Pilgrim's, as the receiving entity, recognized the assets and liabilities received at their historical carrying amounts, as reflected in the parent's financial statements. The difference between the proceeds transferred and the carrying amounts of the net assets on the date of the acquisition is recognized in equity.

Transaction costs incurred in conjunction with the acquisition were approximately $19.9 million. These costs were expensed as incurred. Beginning September 8, 2017, the results of operations and financial position of Moy Park have been included in the consolidated results of operations and financial position of the Company. The results of operations and financial position of Moy Park have been combined with the results of operations and financial position of Pilgrim's from September 30, 2015, the common control date, through September 7, 2017. Net sales generated by Moy Park during the thirteen weeks ended July 1, 2018 and June 25, 2017 were $563.1 million and $500.7 million, respectively. Net sales generated by Moy Park during the twenty-six weeks ended July 1, 2018 and June 25, 2017 were $1,107.4 million and $959.5 million, respectively. Moy Park generated net income during the thirteen weeks ended July 1, 2018 and June 25, 2017 totaling $19.3 million and $11.1 million, respectively. Moy Park generated net income during the twenty-six weeks ended July 1, 2018 and June 25, 2017 totaling $21.8 million and $17.4 million, respectively.

The following unaudited pro forma information presents the combined financial results for the Company and Moy Park as if the acquisition had been completed at the beginning of the Company's prior year, December 25, 2016.

	Twenty-Six Weeks Ended July 1, 2018	Twenty-Six Weeks Ended June 25, 2017
	(In thousands, except per share amount)	
Net sales	$5,583,391	$5,231,626
Net income attributable to Pilgrim's Pride Corporation	226,185	314,946
	0.91	1.27

Net income attributable to Pilgrim's Pride Corporation
per common share - diluted

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what the Company’s results of operations would have been had it completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods. Pro forma adjustments exclude cost savings from any synergies resulting from the acquisition.

3. 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:

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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 July 1, 2018 and December 31, 2017, the Company held derivative assets and liabilities that were required to be measured at fair value on a recurring basis. Derivative assets and liabilities consist of long and short positions on exchange-traded commodity futures instruments, commodity options instruments and foreign currency instruments to manage translation and remeasurement risk.

The following items were measured at fair value on a recurring basis:

	July 1, 2018	
	Level 1	Total
	(In thousands)	
Fair value assets:		
Commodity futures instruments	$18,590	$18,590
Commodity options instruments	88	88
Foreign currency instruments	527	527
Fair value liabilities:		
Commodity futures instruments	(25,920)	(25,920)
Commodity options instruments	(16,641)	(16,641)
Foreign currency instruments	(278)	(278)

	December 31, 2017	
	Level 1	Total
	(In thousands)	
Fair value assets:		
Commodity futures instruments	$301	$301
Commodity options instruments	421	421
Foreign currency instruments	45	45
Fair value liabilities:		
Commodity futures instruments	(296)	(296)
Commodity option instruments	(3,551)	(3,551)
Foreign currency instruments	(211)	(211)

See “Note 7. Derivative Financial Instruments” for additional information.

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. For each class of assets and liabilities not measured at fair value in the Condensed Consolidated Balance Sheet but for which fair value is disclosed, the Company is not required to provide the quantitative disclosure about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy.

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.

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The carrying amounts and estimated fair values of our fixed-rate debt obligation recorded in the Condensed Consolidated Balance Sheets consisted of the following:

	July 1, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In thousands)		
Fixed-rate senior notes payable at 5.75%, at Level 1 inputs	$(1,002,698)	$(960,000)	$(750,000)	$(774,375)
Fixed-rate senior notes payable at 5.875%, at Level 1 inputs	(843,359)	(791,716)	(604,820)	(619,080)
Fixed-rate senior notes payable at 6.25%, at Level 1 inputs	—	—	(403,444)	(418,787)
Secured loans, at Level 3 inputs	(580)	(576)	(873)	(855)

See "Note 11. Long-Term Debt and Other Borrowing Arrangements" for additional information.

The carrying amounts of our cash and cash equivalents, derivative trading accounts' margin cash, restricted cash and cash equivalents, accounts receivable, accounts payable and certain other liabilities approximate their fair values due to their relatively short maturities. 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 value of the Company's Level 1 fixed-rate debt obligations was based on the quoted market price at July 1, 2018 or December 31, 2017, as applicable. The fair value of the Company's Level 3 fixed-rate debt obligation was based on discounted cash flows at July 1, 2018 or December 31, 2017, 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.

4. TRADE ACCOUNTS AND OTHER RECEIVABLES

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

	July 1, 2018	December 31, 2017
	(In thousands)	
Trade accounts receivable	$559,778	$548,472
Notes receivable - current	5,130	5,130
Other receivables	33,403	20,021
Receivables, gross	598,311	573,623
Allowance for doubtful accounts	(8,378)	(8,145)
Receivables, net	$589,933	$565,478
Account receivable from related parties[(a)]	$1,179	$2,951

(a) Additional information regarding accounts receivable from related parties is included in "Note 20. Related Party Transactions."

Activity in the allowance for doubtful accounts for the twenty-six weeks ended July 1, 2018 was as follows (in thousands):

Balance, beginning of period	$(8,145)
Provision charged to operating results	(1,132)
Account write-offs and recoveries	894
Effect of exchange rate	5
Balance, end of period	$(8,378)

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5. INVENTORIES

Inventories consisted of the following:

	July 1, 2018	December 31, 2017
	(In thousands)	
Raw materials and work-in-process	$751,534	$ 722,083
Finished products [(a)]	345,158	444,796
Operating supplies	38,770	35,442
Maintenance materials and parts	54,555	52,749
Total inventories	$1,190,017	$ 1,255,070

(a) Finished products contains a $54.4 million reclassification related to both in-transit and non-chicken finished products that were previously presented in Feed, eggs and other on our annual report on Form 10-K for the year ended December 31, 2017 to conform to the inventories presented as of July 1, 2018.

6. INVESTMENTS IN SECURITIES

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

The following table summarizes our investments in available-for-sale securities:

	July 1, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Cash equivalents:				
Fixed income securities	$524,806	$524,806	$330,456	$330,456
Other	1,323	1,323	942	942

Securities classified as cash and cash equivalents mature within 90 days. Securities classified as short-term investments mature between 91 and 365 days. Securities classified as long-term investments mature after 365 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 during the thirteen and twenty-six weeks ended July 1, 2018 related to the Company's available-for-sale securities totaled $1.8 million and $2.9 million while gross realized losses were immaterial. Gross realized gains during the thirteen and twenty-six weeks ended June 25, 2017 related to the Company's available-for-sale securities totaled $1.0 million and $1.1 million while gross realized losses were immaterial. Proceeds received from the sale or maturity of available-for-sale securities recognized as either short or long-term investments are historically disclosed in the Condensed Consolidated and Combined Statements of Cash Flows. Net unrealized holding gains and losses on the Company's available-for-sale securities recognized during the thirteen and twenty-six weeks ended July 1, 2018 and June 25, 2017 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 thirteen and twenty-six weeks ended July 1, 2018 and June 25, 2017 are disclosed in "Note 15. Stockholders' Equity".

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes various raw materials in its operations, including corn, soybean meal, soybean oil, and energy, such as natural gas, electricity and diesel fuel, which are all considered commodities. The Company considers these raw materials generally available from a number of different sources and believes it can obtain them to meet its requirements. These commodities are subject to price fluctuations and related price risk due to factors beyond our control, such as economic and political conditions, 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.

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The Company has operations in Mexico and Europe (including the U.K.) and, therefore, has exposure to translational foreign exchange risk when the financial results of those operations are remeasured in U.S. dollars. The Company has purchased 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 collateral for changes in the net fair value of the derivative contracts.

We have not designated certain derivative financial instruments that we have purchased to mitigate commodity purchase or foreign currency transaction exposures on our Mexico operations as cash flow hedges. Items designated as cash flow hedges are disclosed and described further below. 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 and Combined Statements of Income.

We have designated certain derivative financial instruments related to our U.K. and Europe segment that we have purchased to mitigate foreign currency transaction exposures as cash flow hedges. Before the settlement date of the financial derivative instruments, we recognize changes in the fair value of the effective portion of the cash flow hedge into accumulated other comprehensive income (“AOCI”) while we recognize changes in the fair value of the ineffective portion immediately in earnings. When the derivative financial instruments associated with the effective portion are settled, the amount in AOCI is then reclassified to earnings. Gains or losses related to these derivative financial instruments are included in the line item Cost of sales in the Condensed Consolidated and Combined Statements of Income.

The Company recognized net losses of $24.0 million and net gains of $3.2 million related to changes in the fair value of its derivative financial instruments during the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively. The Company recognized net losses of $17.6 million and net gains of $0.3 million related to changes in the fair value of its derivative financial instruments during the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively.

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

	July 1, 2018	December 31, 2017
	(Fair values in thousands)	
Fair values:		
Commodity derivative assets	$ 18,678	$ 722
Commodity derivative liabilities	(42,561)	(3,847)
Foreign currency derivative assets	527	45
Foreign currency derivative liabilities	(278)	(211)
Collateral posted with brokers[(a)]	33,185	8,021
Derivatives coverage[(b)]:		
Corn	24.7 %	3.1 %
Soybean meal	18.4 %	1.7 %
Period through which stated percent of needs are covered:		
Corn	March 2019	March 2019
Soybean meal	July 2019	December 2018

(a) Collateral posted with brokers consists primarily of cash, short term treasury bills, or other cash equivalents.

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

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The following tables present the components of the gain or loss on derivatives that qualify as cash flow hedges:

	Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)			
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(In thousands)			
Foreign currency derivatives	$(98)	$622	$(97)	$698
Total	$(98)	$622	$(97)	$698

	Net Realized Gains (Losses) Recognized in Income on Derivative (Ineffective Portion)			
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(In thousands)			
Foreign currency derivatives	$—	$—	$—	$—
Total	$—	$—	$—	$—

	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)			
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
	(In thousands)			
Foreign currency derivatives	$222	$(116)	$472	$(67)
Total	$222	$(116)	$472	$(67)

At July 1, 2018, the pre-tax deferred net gains on derivatives recorded in AOCI that are expected to be reclassified to the Condensed Consolidated and Combined Statements of Income during the next twelve months are $0.1 million. This expectation is based on the anticipated settlements on the hedged investments in foreign currencies that will occur over the next twelve months, at which time the Company will recognize the deferred gains (losses) to earnings.

8. GOODWILL AND INTANGIBLE ASSETS

The activity in goodwill by segment for the twenty-six weeks ended July 1, 2018 was as follows:

	December 31, 2017	Currency Translation	July 1, 2018
	(In thousands)		
U.S.	$41,936	$—	$41,936
U.K. and Europe	834,346	(19,329)	815,017
Mexico	125,607	—	125,607
Total	$1,001,889	$(19,329)	$982,560

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Identified intangible assets consisted of the following:

	December 31, 2017	Amortization	Currency Translation	Reclassification	July 1, 2018
	(In thousands)				
Carrying amount:					
Trade names	$79,686	$ —	$ —	$ (1,343)	$78,343
Customer relationships	251,952	—	(2,070)	1,343	251,225
Non-compete agreements	320	—	—	—	320
Trade names not subject to amortization	403,594	—	(8,563)	—	395,031
Accumulated amortization:					
Trade names	(40,888)	(1,864)	—	623	(42,129)
Customer relationships	(77,194)	(11,586)	675	(623)	(88,728)
Non-compete agreements	(307)	(4)	—	—	(311)
Total identified intangible assets	$617,163	$ (13,454)	$ (9,958)	$ —	$593,751

Intangible assets are amortized over the estimated useful lives of the assets as follows:

Customer relationships	5-16 years
Trade names	3-20 years
Non-compete agreements	3 years

At July 1, 2018, the Company assessed if events or changes in circumstances indicated that the aggregate carrying amount of its identified intangible assets subject to amortization might not be recoverable. There were no indicators present that required the Company to test the recoverability of the aggregate carrying amount of its identified intangible assets subject to amortization at that date.

9. PROPERTY, PLANT AND EQUIPMENT

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

	July 1, 2018	December 31, 2017
	(In thousands)	
Land	$196,934	$205,087
Buildings	1,675,963	1,681,610
Machinery and equipment	2,622,713	2,533,522
Autos and trucks	60,731	58,159
Construction-in-progress	210,970	187,094
PP&E, gross	4,767,311	4,665,472
Accumulated depreciation	(2,653,358)	(2,570,325)
PP&E, net	$2,113,953	$2,095,147

The Company recognized depreciation expense of $61.9 million and $61.9 million during the thirteen weeks ended July 1, 2018 and June 25, 2017, respectively. The Company recognized depreciation expense of $122.6 million and $117.3 million during the twenty-six weeks ended July 1, 2018 and June 25, 2017, respectively.

During the twenty-six weeks ended July 1, 2018, Pilgrim's spent $155.2 million on capital projects and transferred $109.6 million of completed projects from construction-in-progress to depreciable assets. Capital expenditures were primarily incurred during the twenty-six weeks ended July 1, 2018 to improve efficiencies and reduce costs. During the twenty-six weeks ended June 25, 2017, the Company spent $198.0 million on capital projects and transferred $159.1 million of completed projects from construction-in-progress to depreciable assets.

During the thirteen and twenty-six weeks ended July 1, 2018, the Company sold certain PP&E for $0.2 million and $1.2 million, respectively, in cash and recognized net loss on these sales of $0.1 million and $0.2 million, respectively. PP&E sold in twenty-six weeks ended July 1, 2018 included a processing plant in Alabama and miscellaneous equipment. During the thirteen

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and twenty-six weeks ended June 25, 2017, the Company sold certain PP&E for cash of $1.3 million and $1.5 million, respectively and recognized net gain on these sales of $0.9 million and $0.8 million, respectively. PP&E sold in the twenty-six weeks ended June 25, 2017 included poultry farms in Alabama and Texas, vacant land in Texas and miscellaneous equipment.

Management has committed to the sale of a processing complex in Minnesota and miscellaneous equipment that no longer fit into the operating plans of the Company. The Company is actively marketing these assets for immediate sale and believes a sale of each asset can be consummated within the next 12 months. At July 1, 2018 and December 31, 2017, the Company reported properties and related assets totaling $2.9 million and $0.7 million, respectively, in the line item Assets held for sale on its Condensed Consolidated Balance Sheets. The fair values of the Minnesota processing complex and the miscellaneous equipment that were classified as assets held for sale as of July 1, 2018 were both based on quoted market prices.

The Company tested the recoverability of its Minnesota processing complex held for sale as of April 1, 2018 and July 1, 2018. The Company determined that the aggregate carrying amount at April 1, 2018 of this asset group was not recoverable over the remaining life of the primary asset in the group and recognized impairment cost of $0.5 million within the U.S. segment, which it reported in the line item Administrative restructuring charges on its Condensed Consolidated and Combined Statements of Income. The Company determined that the aggregate carrying amount at July 1, 2018 of this asset group was recoverable over the remaining life of the primary asset in the group.

The Company has closed or idled various facilities in the U.S. and in the U.K. Neither the Board of Directors nor JBS 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 July 1, 2018, the carrying amounts of these idled assets totaled $49.3 million based on depreciable value of $170.0 million and accumulated depreciation of $120.7 million.

At July 1, 2018, the Company assessed if events or changes in circumstances indicated that the aggregate carrying amount of its property, plant and equipment held for use might not be recoverable. There were no indicators present that required the Company to test the recoverability of the aggregate carrying amount of its property, plant and equipment held for use at that date.

10. CURRENT LIABILITIES

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

	July 1, 2018	December 31, 2017
	(In thousands)	
Accounts payable:		
Trade accounts	$740,943	$ 661,759
Book overdrafts	60,857	56,022
Other payables	13,896	15,246
Total accounts payable	815,696	733,027
Accounts payable to related parties[(a)]	26,941	2,889
Revenue contract liability[(b)]	32,200	36,607
Accrued expenses and other current liabilities:		
Compensation and benefits	134,377	181,678
Interest and debt-related fees	36,142	29,750
Insurance and self-insured claims	82,590	79,911
Derivative liabilities:		
Commodity futures	25,920	296
Commodity options	16,641	3,551
Foreign currency derivatives	278	211
Other accrued expenses	111,494	114,755

Total accrued expenses and other current liabilities	407,442	410,152
	$1,282,279	$ 1,182,675

(a) Additional information regarding accounts payable to related parties is included in “Note 20. Related Party Transactions.”

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(b) Additional information regarding revenue contract liabilities is included in “Note 13. Revenue Recognition.”

11. LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt and other borrowing arrangements, including current notes payable to banks, consisted of the following components:

	Maturity	July 1, 2018	December 31, 2017
		(In thousands)	
Long-term debt and other long-term borrowing arrangements:			
Senior notes payable, net of premium and discount at 5.75%	2025	$1,002,698	$754,820
Senior notes payable, net of discount at 5.875%	2027	843,359	600,000
Senior notes payable at 6.25%	2021	—	403,444
U.S. Credit Facility (defined below):			
Term note payable at 3.60%	2022	760,000	780,000
Revolving note payable at 5.25%	2022	—	73,262
Mexico Credit Facility (defined below) with notes payable at TIIE Rate plus 0.95%	2019	—	76,307
Moy Park Multicurrency Revolving Facility with notes payable at LIBOR rate plus 2.5%	2018	—	9,590
Moy Park France Invoice Discounting Revolver with payables at EURIBOR plus 0.8%	2018	—	1,815
Moy Park Bank of Ireland Revolving Facility with notes payable at LIBOR or EURIBOR plus 1.25% to 2.00%	2023	39,624	—
Secured loans with payables at weighted average of 3.74%	Various	580	873
Capital lease obligations	Various	6,322	9,239
Long-term debt		2,652,583	2,709,350
Less: Current maturities of long-term debt		(44,606)	(47,775)
Long-term debt, less current maturities		2,607,977	2,661,575
Less: Capitalized financing costs		(23,491)	(25,958)
Long-term debt, less current maturities, net of capitalized financing costs:		$2,584,486	$2,635,617

U.S. Senior Notes

On March 11, 2015, the Company completed a sale of $500.0 million aggregate principal amount of its 5.75% senior notes due 2025. On September 29, 2017, the Company completed an add-on offering of $250.0 million of these senior notes. The issuance price of this add-on offering was 102.0%, which created gross proceeds of $255.0 million. The additional $5.0 million will be amortized over the remaining life of the senior notes. On March 7, 2018, the Company completed another add-on offering of $250.0 million of these senior notes (together with the senior notes issued in March 2015 and September 2017, the “Senior Notes due 2025”). The issuance price of this add-on offering was 99.25%, which created gross proceeds of $248.1 million. The $1.9 million discount will be amortized over the remaining life of the senior notes. Each issuance of the Senior Notes due 2025 is treated as a single class for all purposes under the 2015 Indenture (defined below) and have the same terms.

The Senior Notes due 2025 are governed by, and were issued pursuant to, an indenture dated as of March 11, 2015 by and among the Company, its guarantor subsidiary and Wells Fargo Bank, National Association, as trustee (the “2015 Indenture”). The 2015 Indenture provides, among other things, that the Senior Notes due 2025 bear interest at a rate of 5.75% per annum from the date of issuance until maturity, payable semi-annually in cash in arrears, beginning on September 15, 2015 for the Senior Notes due 2025 that were issued in March 2015 and beginning on March 15, 2018 for the Senior Notes due 2025 that were issued in September 2017 and March 2018.

On September 29, 2017, the Company completed a sale of $600.0 million aggregate principal amount of its 5.875% senior notes due 2027. On March 7, 2018, the Company completed an add-on offering of $250.0 million of these senior notes (together with the senior notes issued in September 2017, the “Senior Notes due 2027”). The issuance price of this add-on offering was 97.25%, which created gross proceeds of $243.1 million. The $6.9 million discount will be amortized over the remaining life of

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the Senior Notes due 2027. Each issuance of the Senior Notes due 2027 is treated as a single class for all purposes under the 2017 Indenture (defined below) and have the same terms.

The Senior Notes due 2027 are governed by, and were issued pursuant to, an indenture dated as of September 29, 2017 by and among the Company, its guarantor subsidiary and U.S. Bank National Association, as trustee (the "2017 Indenture"). The 2017 Indenture provides, among other things, that the Senior Notes due 2027 bear interest at a rate of 5.875% per annum from the date of issuance until maturity, payable semi-annually in cash in arrears, beginning on March 30, 2018 for the Senior Notes due 2027 that were issued in September 2017 and beginning on March 15, 2018 for the Senior Notes due 2027 that were issued in March 2018.

The Senior Notes due 2025 and the Senior Notes due 2027 are each guaranteed on a senior unsecured basis by the Company's guarantor subsidiary. In addition, any of the Company's other existing or future domestic restricted subsidiaries that incur or guarantee any other indebtedness (with limited exceptions) must also guarantee the Senior Notes due 2025 and the Senior Notes due 2027. The Senior Notes due 2025 and the Senior Notes due 2027 and related guarantees are unsecured senior obligations of the Company and its guarantor subsidiary and rank equally with all of the Company's and its guarantor subsidiary's other unsubordinated indebtedness. The Senior Notes due 2025, the 2015 Indenture, the Senior Notes due 2027 and the 2017 Indenture also contain customary covenants and events of default, including failure to pay principal or interest on the Senior Notes due 2025 and the Senior Notes due 2027 when due, among others.

The Company used the net proceeds from the sale of the Senior Notes due 2025 and the Senior Notes due 2027 that were issued in September 2017 to repay in full the JBS S.A. Promissory Note issued as part of the Moy Park acquisition and for general corporate purposes. The Company used the net proceeds from the sale of the Senior Notes due 2025 and the Senior Notes due 2027 that were issued in March 2018 to pay the second tender price of Moy Park Notes (as described below), repay a portion of outstanding secured debt, and for general corporate purposes. The Senior Notes due 2025 and the Senior Notes due 2027 were sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act.

Moy Park Senior Notes

Between May 29, 2014 and April 17, 2015, Moy Park (Bondco) plc completed the sale of £300.0 million aggregate principal amount of its 6.25% senior notes due 2021 (the "Moy Park Senior Notes"). Between November 3, 2017 and March 8, 2018, Moy Park (Bondco) plc completed the purchase for cash of the Moy Park Senior Notes through a tender offer. As of March 8, 2018, £234.3 million principal amount of Moy Park Senior Notes had been validly tendered and purchased by Moy Park (Bondco) plc.

On May 29, 2018, Moy Park (Bondco) plc redeemed all remaining Moy Park Senior Notes outstanding at the redemption price equal to 101.56% of the principal amount, plus accrued and unpaid interest. The principal value of the Moy Park Senior Notes redeemed on May 29, 2018 was £65.7 million. As of July 1, 2018, there are no Moy Park Senior Notes outstanding.

U.S. Credit Facility

On May 8, 2017, the Company and certain of its subsidiaries entered into a Third Amended and Restated Credit Agreement (the "U.S. Credit Facility") with Coöperatieve Rabobank U.A., New York Branch ("Rabobank"), as administrative agent and collateral agent, and the other lenders party thereto. The U.S. Credit Facility provides for a revolving loan commitment of up to $750.0 million and a term loan commitment of up to $800.0 million (the "Term Loans"). The U.S. Credit Facility also includes an accordion feature that allows the Company, at any time, to increase the aggregate revolving loan and term loan commitments by up to an additional $1.0 billion, subject to the satisfaction of certain conditions, including obtaining the lenders' agreement to participate in the increase.

The revolving loan commitment under the U.S. Credit Facility matures on May 6, 2022. All principal on the Term Loans is due at maturity on May 6, 2022. Installments of principal are required to be made, in an amount equal to 1.25% of the original principal amount of the Term Loans, on a quarterly basis prior to the maturity date of the Term Loans. Covenants in the U.S. Credit Facility also require the Company to use the proceeds it receives 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. As of July 1, 2018, the Company had Term Loans outstanding totaling

$760.0 million and the amount available for borrowing under the revolving loan commitment was $705.1 million. The Company had letters of credit of $44.9 million and no borrowings outstanding under the revolving loan commitment as of July 1, 2018.

The U.S. Credit Facility includes a $75.0 million sub-limit for swingline loans and a $125.0 million sub-limit for letters of credit. Outstanding borrowings under the revolving loan commitment and the Term Loans bear interest at a per annum rate equal to (i) in the case of LIBOR loans, LIBOR plus 1.50% through March 26, 2017 and, thereafter, based on the Company’s net senior secured leverage ratio, between LIBOR plus 1.25% and LIBOR plus 2.75% and (ii) in the case of alternate base rate loans, the base rate plus 0.50% through March 26, 2017 and, based on the Company’s net senior secured leverage ratio, between the base rate plus 0.25% and base rate plus 1.75% thereafter.

The U.S. Credit Facility contains financial covenants and various other covenants that may adversely affect the Company’s 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 and the Company’s 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 U.S. Credit Facility also provides that we may not incur capital expenditures in excess of $500.0 million in any fiscal year. The Company is currently in compliance with the covenants under the U.S. Credit Facility.

All obligations under the U.S. Credit Facility continue to be unconditionally guaranteed by certain of the Company’s subsidiaries and continue to be secured by a first priority lien on (i) the accounts receivable and inventory of our Company and its non-Mexico subsidiaries, (ii) 100% of the equity interests in the Company's domestic subsidiaries, To-Ricos, Ltd. and To-Ricos Distribution, Ltd., and 65% of the equity interests in our direct foreign subsidiaries and (iii) substantially all of the assets of the Company and the guarantors under the U.S. Credit Facility.

On July 20, 2018, the Company, and certain of the Company's subsidiaries entered into a Fourth Amended and Restated Credit Agreement with CoBank, ACB, as administrative agent and collateral agent, and the other lenders party thereto. See “Note 22. Subsequent Events” for additional information.

Mexico Credit Facility

On September 27, 2016, certain of the Company's Mexican subsidiaries entered into an unsecured credit agreement (the “Mexico Credit Facility”) with BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as lender. The loan commitment under the Mexico Credit Facility was $1.5 billion Mexican pesos. Outstanding borrowings under the Mexico Credit Facility accrued interest at a rate equal to the Interbank Equilibrium Interest Rate plus 0.95%. The Mexico Credit Facility is scheduled to mature on September 27, 2019. Outstanding borrowings under the Mexico Credit Facility bear interest at a per annum rate of 8.81%. As of July 1, 2018, the U.S. dollar-equivalent loan commitment and the U.S. dollar-equivalent borrowing availability under the Mexico Credit Facility were $75.4 million and $75.4 million, respectively. As of July 1, 2018, there were no outstanding borrowings under the Mexico Credit Facility.

Moy Park Bank of Ireland Revolving Facility Agreement

On June 2, 2018, Moy Park Holdings (Europe) Ltd. and its subsidiaries entered into an unsecured multicurrency revolving facility agreement (the “Bank of Ireland Facility Agreement”) with the Governor and Company of the Bank of Ireland, as agent, and the other lenders party thereto. The Bank of Ireland Facility Agreement provides for a multicurrency revolving loan commitment of up to £100.0 million. The multicurrency revolving loan commitments under the Bank of Ireland Facility Agreement matures on June 2, 2023. Outstanding borrowings under the Bank of Ireland Facility Agreement bear interest at a rate per annum equal to the sum of (i) LIBOR or, in relation to any loan in euros, EURIBOR, plus (ii) a margin, ranging from 1.25% to 2.00% based on Leverage (as defined in the Bank of Ireland Facility Agreement). All obligations under the Bank of Ireland Facility Agreement are guaranteed by certain of Moy Park's subsidiaries. As of July 1, 2018, the U.S. dollar-equivalent loan commitment, borrowing availability and outstanding borrowings under the Bank of Ireland Facility Agreement were $132.1 million, $92.5 million, and $39.6 million, respectively.

The Bank of Ireland Facility Agreement contains representations and warranties, covenants, indemnities and conditions that the Company believes are customary for transactions of this type. Pursuant to the terms of the Bank of Ireland Facility Agreement, Moy Park is required to meet certain financial and other restrictive covenants. Additionally, Moy Park is prohibited from taking certain actions without consent of the lenders, including, without limitation, incurring additional indebtedness, entering into certain mergers or other business combination transactions, permitting liens or other encumbrances on its assets and making restricted payments, including dividends, in each case except as expressly permitted under the Bank of Ireland Facility Agreement. The Bank of Ireland Facility Agreement contains events of default that the Company believes are customary for transactions of this type. If a default occurs, any outstanding obligations under the Bank of Ireland Facility Agreement may be accelerated.

Moy Park Multicurrency Revolving Facility Agreement

On March 19, 2015, Moy Park Holdings (Europe) Ltd. and its subsidiaries, entered into an agreement with Barclays Bank plc, which expired on March 19, 2018. The agreement provided for a multicurrency revolving loan commitment of up to £20.0 million.

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Moy Park Receivables Finance Agreement

Moy Park Ltd., entered into a £45.0 million receivables finance agreement on January 29, 2016 (the "Receivables Finance Agreement"), with Barclays Bank plc. Moy Park Holdings (Europe) Ltd. repaid the Receivables Finance Agreement in full using available cash and proceeds from the Bank of Ireland Facility Agreement and terminated the Receivables Finance Agreement with Barclays Bank plc on June 4, 2018.

Moy Park France Invoice Discounting Facility

In June 2009, Moy Park France Sàrl entered into a €20.0 million invoice discounting facility with GE De Facto (the "Invoice Discounting Facility"). The facility limit was decreased €10.0 million in June 2018 to €10.0 million. The Invoice Discounting Facility is payable on demand and the term is extended on an annual basis. The agreement can be terminated by either party with three months' notice. Outstanding borrowings under the Invoice Discounting Facility bear interest at a per annum rate equal to EURIBOR plus a margin of 0.80%. As of July 1, 2018, the U.S. dollar-equivalent loan commitment and borrowing availability under the Invoice Discounting Facility were $11.7 million and $11.7 million, respectively. As of July 1, 2018, there were no outstanding borrowings under the Invoice Discounting Facility.

The Invoice Discounting Facility contains financial covenants and various other covenants that may adversely affect Moy Park's ability to, among other things, incur additional indebtedness, consummate certain asset sales, enter into certain transactions with JBS and the Company's other affiliates, merge, consolidate and/or sell or dispose of all or substantially all of Moy Park's assets.

12. INCOME TAXES

The Company recorded income tax expense of $75.5 million, a 25.1% effective tax rate, for the twenty-six weeks ended July 1, 2018 compared to income tax expense of $164.7 million, a 32.2% effective tax rate, for the twenty-six weeks ended June 25, 2017. The decrease in income tax expense in 2018 resulted primarily from a reduction in pre-tax income as well as a reduction in the U.S. corporate income tax rate as a result of the recently enacted comprehensive tax legislation.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation (the "Tax Act"), which significantly revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35.0% to 21.0%, implementing a territorial tax system, imposing a one-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs (e.g., interest expense), among other things.

The Company is applying the guidance in Staff Accounting Bulletin ("SAB") 118 when accounting for the enactment-date effects of the Tax Act. As of July 1, 2018, the Company has not completed its accounting for all of the tax effects of the Tax Act. In certain cases, as described below, the Company has made a reasonable estimate of certain effects of the Tax Act. In other cases, the Company has not been able to make a reasonable estimate and continues to account for those items based on existing accounting under Accounting Standards Codification ("ASC") Topic 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. For example, the Company has yet to make a reasonable estimate for the effect of the various federal income tax elements of the Tax Act on its state tax rate. In all cases, the Company will continue to make and refine its calculations as additional analysis is completed. Estimates may also be affected as the Company gains a more thorough understanding of the Tax Act. These changes could be material to income tax expense.

As of December 31, 2017, the Company estimated no tax liability on foreign unremitted earnings due to a net earnings and profits ("E&P") deficit on accumulated post-1986 deferred foreign income. Therefore, the Company did not accrue any amount of tax expense for the Tax Act's one-time transition tax on the foreign subsidiaries' accumulated, unremitted earnings going back to 1986 for the year ended December 31, 2017. As of July 1, 2018, the Company continues to estimate no tax liability for the one-time transition tax. As the Company continues to refine its E&P analysis, the Company will adjust its calculations of the one-time transition tax, which could affect the measurement of this liability.

The Tax Act subjects a U.S. shareholder to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined the accounting policy it will elect. As of July 1, 2018, the Company estimates a $6.9 million federal GILTI tax liability, which is reflected in the Company's estimated annual effective tax rate.

The Tax Act provides for a foreign-derived intangible income (“FDII”) deduction, which is available to domestic C corporations that derive income from the export of property and services. As of July 1, 2018, the Company estimated a federal FDII benefit of $0.7 million, which is reflected in the Company’s estimated annual effective tax rate. The Company will continue to refine its FDII calculations, which may result in changes to this estimated benefit.

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 July 1, 2018, the Company did not believe it had sufficient positive evidence to conclude that realization of a portion of its foreign net deferred tax assets are more likely than not to be realized.

For the twenty-six weeks ended July 1, 2018 and June 25, 2017, there is a tax effect of ($0.2) million and $1.5 million, respectively, reflected in other comprehensive income.

For the twenty-six weeks ended July 1, 2018 and June 25, 2017, there are immaterial tax effects reflected in income tax expense due to excess tax benefits related to share-based compensation.

The Company and its subsidiaries file a variety of consolidated and standalone income tax returns in various jurisdictions. In the normal course of business, our income tax filings are subject to review by various taxing authorities. In general, tax returns filed by our Company and our subsidiaries for years prior to 2011 are no longer subject to examination by tax authorities.

13. REVENUE RECOGNITION

The vast majority of the Company's revenue is derived from contracts which are based upon a customer ordering our products. While there may be master agreements, the contract is only established when the customer’s order is accepted by the Company. The Company accounts for a contract, which may be verbal or written, when it is approved and committed by both parties, the rights of the parties are identified along with payment terms, the contract has commercial substance and collectability is probable.

The Company evaluates the transaction for distinct performance obligations, which are the sale of its products to customers. Since its products are commodity market-priced, the sales price is representative of the observable, standalone selling price. Each performance obligation is recognized based upon a pattern of recognition that reflects the transfer of control to the customer at a point in time, which is upon destination (customer location or port of destination), which faithfully depicts the transfer of control and recognition of revenue. There are instances of customer pick-up at the Company's facility, in which case control transfers to the customer at that point and the Company recognizes revenue. The Company's performance obligations are typically fulfilled within days to weeks of the acceptance of the order.

The Company makes judgments regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue and cash flows with customers. Determination of a contract requires evaluation and judgment along with the estimation of the total contract value and if any of the contract value is constrained. Due to the nature of our business, there is minimal variable consideration, as the contract is established at the acceptance of the order from the customer. When applicable, variable consideration is estimated at contract inception and updated on a regular basis until the contract is completed. Allocating the transaction price to a specific performance obligation based upon the relative standalone selling prices includes estimating the standalone selling prices including discounts and variable consideration.

Disaggregated Revenue

Revenue has been disaggregated into the categories below to show how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows.

	Thirteen Weeks Ended July 1, 2018			Twenty-Six Weeks Ended July 1, 2018		
	Domestic	Export	Net Sales	Domestic	Export	Net Sales
	(In thousands)			(In thousands)		
U.S.	$1,844,662	$54,773	$1,899,435	$3,610,602	$129,938	$3,740,540

U.K. and Europe	477,939	85,163	563,102	942,306	165,096	1,107,402
Mexico	374,176	—	374,176	735,449	—	735,449
Net Sales	$2,696,777	$139,936	$2,836,713	$5,288,357	$295,034	$5,583,391

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Shipping and Handling Costs

In the rare case when shipping and handling activities are performed after a customer obtains control of the good, the Company has elected to account for shipping and handling as activities to fulfill the promise to transfer the good. When revenue is recognized for the related good before the shipping and handling activities occur, the related costs of those shipping and handling activities are accrued. Shipping and handling costs are recorded within cost of sales.

Contract Costs

The Company can incur incremental costs to obtain or fulfill a contract such as broker expenses that are not expected to be recovered. The amortization period for such expenses is less than one year; therefore, the costs are expensed as incurred.

Taxes

There is no change in accounting for taxes due to the adoption of the new revenue standard, as there is no material change to the timing of revenue recognition. We exclude all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes) from the transaction price.

Contract Balances

The Company receives payment from customers based on terms established with the customer. Payments are typically due within two weeks of delivery. There are rarely contract assets related to costs incurred to perform in advance of scheduled billings. Revenue contract liabilities relate to payments received in advance of satisfying the performance under the customer contract. The revenue contract liability relates to customer prepayments and the advanced consideration received from governmental agency contracts for which performance obligations to the end customer have not been satisfied.

Changes in the revenue contract liability balances during the twenty-six weeks ended July 1, 2018