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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 1995 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 (I.R.S. Employer
incorporation or organization) Identification No.)

110 South Texas, Pittsburg, TX 75686-0093
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (903) 855-1000

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

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 X 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. [X]

The aggregate market value of the Registrant's Common Stock, \$0.01 par value, held by non-affiliates of the Registrant as of December 19, 1995, was \$43,597,875. For purposes of the foregoing calculation only, all directors, executive officers, and 5% beneficial owners have been deemed affiliates.

27,589,250 shares of the Registrant's common stock, \$.01 par value, were outstanding as of December 19, 1995.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the annual meeting of stockholders to be held February 7, 1996, are incorporated by reference into Part III.

PART I

Item 1. Business

General

The Company, which was incorporated in Texas in 1968 and reincorporated in Delaware in 1986, is the successor to a partnership founded as a retail feed store in October, 1946 by the late Aubrey E. Pilgrim who was joined in the partnership by his brother Lonnie "Bo" Pilgrim in April, 1947. Over the years, the Company grew through both internal growth and various acquisitions of chicken farming and processing operations. In addition to domestic growth, the Company expanded into Mexico through acquisitions beginning in 1988 and subsequent substantial capital investments.

The Company is a vertically integrated producer of chicken products, controlling the breeding, hatching and growing of chickens and the processing, preparation and packaging of its product lines. The Company is the fifth largest producer of chicken in the United States, with production and distribution facilities located in Texas, Arkansas, Oklahoma and Arizona, and the second largest producer of chicken in Mexico, with production and distribution facilities located in Mexico City and the states of Coahuila, San Luis Potosi, Queretaro and Hidalgo. The Company is also a producer of table eggs, animal feeds and ingredients. See Note H to the Consolidated Financial Statements of the Company for information concerning revenues, operating profit and identifiable assets attributable to the Company's U.S. and Mexican operations.

The Company's chicken products consist primarily of (i) prepared foods, which include portion-controlled breast fillets, tenderloins and strips, formed nuggets and patties and bone-in chicken parts, which are sold frozen and may be either fully cooked or raw; (ii) fresh foodservice chicken, which includes refrigerated (non-frozen), whole or cut-up chicken sold to the foodservice industry either pre-marinated or non-marinated; (iii) prepackaged 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; and (iv) bulk packaged chicken which includes parts and whole chicken, either refrigerated or frozen for U.S. export or domestic use and is sold in eviscerated form in the U.S. and in both eviscerated and uneviscerated forms in Mexico.

During recent years, the Company's strategy has been to identify and develop specific, defined markets where it can achieve significant advantages over competing suppliers. Management believes that this strategy has enabled the Company to achieve both higher rates of growth and higher profits than otherwise would have resulted. The Company has primarily targeted the following markets: (1) U.S. foodservice, (2) U.S. consumer, and (3) Mexico. The following table sets forth, for the periods since 1990, net sales attributable to each of the Company's primary product types in these market segments. The table is based on the Company's internal sales reports and its classification of product types and customers.

	Fiscal Year Ended					
	Sept 29, 1990 (52 Weeks)	Sept 28, 1991 (52 Weeks)	Sept 26, 1992 (52 Weeks)	Oct 2, 1993 (53 Weeks)	Oct 1, 1994 (52 Weeks)	Sept 30, 1995 (52 Weeks)
	(in thousands)					
U.S. Chicken Sales:						
Prepared Foods:						
Foodservice:	\$112,509	\$151,661	\$178,185	\$183,165	\$205,224	\$240,456
Consumer (Retail):	60,069	60,188	85,700	89,822	61,068	38,683
Total Prepared Foods	172,578	211,849	263,885	272,987	266,292	279,139
Fresh Chicken:						
Foodservice:	118,158	127,303	126,472	149,197	155,294	140,201
Consumer (Retail):	122,907	125,897	105,636	100,063	125,133	138,368
Other:	95,907	85,323	72,724	77,709	88,437	113,414
Total Fresh Chicken	366,972	338,523	304,832	326,969	368,864	391,983
Mexico:						
Bulk-packaged chicken	110,632	141,570	160,620	188,754	188,744	159,491
Total Chicken Sales	620,182	691,942	729,337	788,710	823,900	830,613
Sales of Other						
Domestic Products	100,373	94,709	88,024	99,133	98,709	101,193
Total Net Sales	\$720,555	\$786,651	\$817,361	\$887,843	\$922,609	\$31,806

United States

The following table sets forth, since fiscal 1990, the percentage of net U.S. chicken sales attributable to each of the Company's primary products lines and markets serviced with such products. The table and related discussion are

based on the Company's internal sales reports and its classification of product types and customers.

	Fiscal Year Ended					
	Sept 29, 1990 (52 Weeks)	Sept 28, 1991 (52 Weeks)	Sept 26, 1992 (52 Weeks)	Oct 2, 1993 (53 Weeks)	Oct 1, 1994 (52 Weeks)	Sept 30, 1995 (52 Weeks)

U.S. Chicken Sales:

	Sept 29, 1990 (52 Weeks)	Sept 28, 1991 (52 Weeks)	Sept 26, 1992 (52 Weeks)	Oct 2, 1993 (53 Weeks)	Oct 1, 1994 (52 Weeks)	Sept 30, 1995 (52 Weeks)
Prepared Foods:						
Foodservice	22.1%	27.6%	31.3%	30.5%	32.3%	35.8%
Consumer						
(Retail):	11.8	10.0	15.1	15.0	9.6	5.8
Total Prepared Foods	33.9	38.5	46.4	45.5	41.9	41.6
Fresh Chicken:						
Foodservice:	23.2	23.1	22.2	24.9	24.4	20.9
Consumer						
(Retail):	24.1	22.9	18.6	16.7	19.7	20.6
Other:	18.8	15.5	12.8	13.0	13.9	16.9
Total Fresh Chicken	66.1%	60.5%	53.6%	54.5%	58.1%	58.4%
Total U.S. Chicken						
Sales Mix	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Strategy

Domestic chicken sales can be segmented into two principal product types - prepared foods and fresh chicken. The Company's U.S. business strategy is to (i) focus most of its primary growth in prepared foods product lines, primarily to foodservice chain restaurants and other commercial and industrial users of prepared chicken; (ii) grow its fresh chicken business through value-added, prepackaged consumer (retail) products; (iii) maintain a substantial presence in the fresh foodservice market segment, and (iv) achieve significant cost and product advantages over competing suppliers through leadership in production technology and new product R & D. The Company believes this strategy results in greater growth in sales and profits than would otherwise result.

Product Types

U.S. Prepared Foods Overview

During 1995, \$279.1 million of the Company's net U.S. chicken sales were in prepared foods products to foodservice and consumer (retail) customers. This is an all time high, up from \$172.6 million in 1990 and reflects the strategic focus for growth of the Company. Management believes the market for prepared foods chicken products will be generally characterized by higher growth rates and more stable margins than non-prepared products. The Company will grow its prepared foods sales to the foodservice industry at a faster rate than to the retail industry.

The Company establishes prices for its prepared chicken products based primarily upon perceived value to the customer, production costs and prices of competing products. However, many of these products are priced according to formulas which are based on an underlying commodity market, and this factor causes some price fluctuation.

U.S. Fresh Chicken Overview

During 1995, \$392.0 million of the Company's net U.S. chicken sales were in fresh chicken products to foodservice, consumer (retail) and other customers. This is an all time high, up from \$367.0 million in 1990. The most significant changes are reflected in the sales dollar shifts since 1992 as the Company has reemphasized its retail fresh chicken business which management believes will continue to be a large and relatively stable base of business. The Company anticipates that its foodservice volume will continue to gradually shift from fresh to more of a prepared foods sales mix, however, there will always remain a base level of fresh foodservice business. Sales growth in the "Other" category primarily reflect approximately \$32 million in 1995 exports of fresh frozen chicken.

Most fresh chicken products are sold to established customers based upon certain weekly or monthly market prices reported by the U.S.D.A. and other public price reporting services, plus a markup, which is dependent upon the

customer's location, volume, product specifications and other factors. A significant portion of the Company's fresh chicken sales is governed by agreements with customers that provide for the pricing method and volume of products to be purchased. The Company believes its practices with respect to sales of its fresh chicken are generally consistent with those of its competitors. The "Other" category of fresh chicken is the sale of the Company's bulk-packaged, whole chicken which have historically been characterized by lower prices and greater price volatility than the Company's more value-added product lines. In the United States, prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the U.S.D.A. or other public price reporting services.

Market Segments

U.S. Foodservice

The majority of the Company's U.S. chicken sales are derived from products sold to the foodservice market which principally consists of chain restaurants, institutions, foodservice distributors, and commercial or industrial users of chicken located throughout the continental United States. The Company supplies chicken products ranging from portion-controlled refrigerated chicken parts to fully cooked and frozen, breaded or non-breaded chicken parts or formed products.

As the second largest full-line supplier of chicken to the foodservice industry, the Company believes it is well-positioned to be the primary or secondary supplier to many national and international chain restaurants who require multiple suppliers of chicken products. Additionally, it is well suited to be the sole supplier for many regional chain restaurants that offer better margin opportunities and a growing base of business. Due to its comparatively large size in this market, management believes the Company has significant competitive advantages in terms of product capability, production capacity, research and development expertise, and distribution and marketing experience relative to smaller and to non-vertically integrated producers. As a result of these competitive advantages, the Company's sales to the foodservice market from fiscal 1990 through fiscal 1995 grew at a compound annual growth rate of approximately 11%. The Company markets both prepared and fresh chicken to the foodservice industry.

Foodservice - Prepared Foods: Prepared foods sales to the foodservice market were \$240.5 million in fiscal 1995 and have increased at a compound annual growth rate of approximately 16% from fiscal 1990 through fiscal 1995. The Company's prepared foods products include portion-controlled breast fillets, tenderloins and strips, formed nuggets and patties and bone-in chicken parts, which are sold frozen and in various stages of preparation, including blanched, battered, breaded and partially or fully-cooked. The Company attributes this growth in sales of prepared foods to the foodservice market to a number of factors:

First, there has been significant growth in the number of foodservice operators offering chicken on their menus and the number of chicken items offered;

Second, foodservice operators are increasingly purchasing prepared chicken products which allow them to reduce labor cost while providing greater product consistency, quality and variety across all restaurant locations;

Third, there is a strong need among larger foodservice companies for an alternative or additional supplier to the Company's principle competitor in the prepared foods market. A viable alternative supplier must be able to ensure supply, demonstrate innovation and new product development, and provide price competition. The Company has been successful in its attempt to become the alternative supplier of choice, and thus the primary or secondary prepared chicken supplier to many large foodservice companies because it (i) is vertically integrated, giving the Company control over raw material supplies, (ii) has the capability to produce many types of chicken items and (iii) has established a reputation for dependable quality, highly responsive service and excellent technical support;

Fourth, as a result of the experience and reputation developed with larger customers, the Company has increasingly become the principal supplier to midsized foodservice organizations; and

Fifth, the Company's in-house product development group, responding to the changing needs of the foodservice market, has enabled the Company to provide foodservice customers with new and improved prepared foods. Approximately \$122

million of the Company's sales to foodservice customers in 1995 consisted of products which were not sold by the Company in 1990.

Foodservice - Fresh Chicken: The Company produces and markets fresh, refrigerated chicken for sale to domestic quick-service restaurant chains, delicatessens and other customers. These chickens have the giblets removed, are usually of specific weight ranges, are usually pre-cut to customer specifications and are often marinated to enhance value and product differentiation. By growing and processing to customers specifications, the Company is able to assist quick service restaurant chains in controlling costs and maintaining size consistency of chicken pieces sold to the consumer.

U.S. Consumer

The U.S. consumer market consists primarily of grocery store chains, retail distributors and wholesale clubs. The Company concentrates its efforts in this market on sales of branded, prepackaged cut-up and whole chicken to grocery chains and retail distributors in the midwestern, southwestern and western portions of the United States. This regional marketing focus enables the Company to develop consumer brand franchises and capitalize on proximity to the trade customer, in terms of lower transportation costs; more timely, responsive service; and enhanced product freshness. For a number of years the Company has invested in both trade and consumer marketing designed to establish high levels of brand name awareness and consumer preferences within these markets.

The Company utilizes numerous marketing techniques, including advertising, to develop and strengthen trade and consumer awareness and increase brand loyalty for consumer products marketed under the Pilgrim's Pride brand. The Company's founder, Lonnie "Bo" Pilgrim, is the featured spokesman in the Company's television, radio and print advertising, and a trademark cameo of a person in a Pilgrim's hat serves as the logo on all of the Company's primary branded products. As a result of this marketing strategy, the Company has established a well-known brand name in certain southwestern markets, including the Dallas/Fort Worth area where, according to a market research company, the Company's brand name was recognized by 96% of grocery shoppers in an aided brand recall study conducted in 1994. Management believes its efforts to achieve and maintain brand awareness and loyalty help to provide more secure distribution for its products and generate greater price premiums that would otherwise be the case in certain southwestern markets. The Company also maintains an active program to identify consumer preferences primarily by testing new product ideas, packaging designs and methods through taste panels and focus groups located in key geographic markets.

Consumer - Prepared Foods: The Company sells consumer oriented prepared foods primarily to grocery store chains located in the midwestern, southwestern and western portions of the U.S. where it also markets prepackaged fresh chicken. Being a major, national competitor in retail, branded frozen foods is not a part of the Company's current business strategy. The Company previously was a national supplier of retail prepared chicken to Pace Membership Warehouse until Pace was acquired by Sam's Club in January 1994. The wholesale club industry is dominated by two large national operators, Sam's Club and Price-Costco. Due to the highly concentrated nature of the club store business the Company has redirected this prepared foods capacity to a more diversified customer base with better overall gross margins.

Consumer - Fresh Chicken: The Company's prepackaged retail products include various combinations of freshly refrigerated whole chickens and chicken parts in trays, bags or other consumer packs, labeled and priced ready for the grocer's fresh meat counter. Management believes the retail, prepackaged fresh chicken business will continue to be a large and relatively stable market, providing opportunities for product differentiation and regional brand loyalty.

The Company concentrates its sales and marketing efforts for the above product types to grocery chains and retail distributors in the midwestern, southwestern and western portions of the United States. This regional marketing focus enables the Company to develop consumer brand franchises and capitalize on proximity to the trade customer, in terms of lower transportation costs; more timely, responsive service; and enhanced product freshness.

Other Chicken: The Company sells bulk whole chickens and cut-up parts primarily to retail grocers and food distributors in the United States. In recent years, the Company has de-emphasized its marketing of bulk-packaged chicken in the United States in favor of more value-added products and export opportunities. In the United States, prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the U.S.D.A. or other public price reporting

services. The majority of the growth in sales of "other" products between 1993 and 1995 were in exports to the Far East, Middle East and Eastern Europe. Management believes exports of both prepared and fresh chicken will grow at a rate faster than the general industry as a whole.

Mexico

Strategy

In Mexico, the Company has made capital investments in advanced production technology, transferred experienced management personnel and utilized proven domestic production techniques in order to be a low cost producer of chicken. At the same time, the Company has directed its marketing efforts toward more value added chicken products. Management believes that this strategy has resulted in increased market share and higher profit margins relative to other Mexican chicken producers and has positioned the Company to participate in any growth in chicken demand which may occur in the future. Recent demand growth in Mexico is evidenced by the increase in per capita consumption of chicken in Mexico, from approximately 24 pounds in 1982 to approximately 38 pounds in 1994, according to an industry source. Recent per capita consumption of chicken is estimated to be down 13% to approximately 33 pounds. The Company considers this decline in consumption to be a temporary reaction resulting from the economic impact of the Mexican peso's devaluation occurring in 1995.

Background: The Mexican market is one of the Company's fastest growing markets and represented approximately 17% of the Company's net sales in fiscal 1995. The Company entered the Mexican market in 1981 when it began selling eggs on a limited basis. Recognizing favorable long-term demographic trends and improving economic conditions in Mexico, the Company began exploring opportunities to produce and market chicken in Mexico. In fiscal 1988, the Company acquired four vertically integrated poultry production operations in Mexico for approximately \$15.1 million. Since such acquisitions and through fiscal 1995, the Company has made capital expenditures in Mexico totaling \$145 million to expand and improve such operations. Included in this amount is fiscal 1995 investments of approximately \$39.2 million for property, plant and equipment in Mexico, of which \$30.0 million was incurred in the acquisition of Union de Queretaro, et al, a group of five chicken companies located near Queretaro, Mexico. (See Note I to the Consolidated Financial Statements). The Company believes its facilities are among the most technologically advanced in Mexico. As a result of these expenditures, the Company has increased weekly production in its Mexico operations by over 415% since its original investment in 1988. The Company believes that it is one of the lowest cost producers of chicken in Mexico.

Products: During the last three years, the Company's Mexico operation has dramatically increased its value added sales of chicken products, which should provide higher, more stable margins. Although changing now, the market for chicken products in Mexico is less developed than in the United States with sales attributed to fewer, more basic products.

Markets: The Company sells its Mexican chicken products primarily to large wholesalers and, to a lesser extent, to retailers through its own distribution network, which includes several warehouse facilities located throughout Central Mexico. The Company's customer base in Mexico covers a broad geographic area from Mexico City, the capital of Mexico with a population estimated to be over 20 million, to Saltillo, the capital of the State of Coahuila, about 500 miles north of Mexico City, and from Tampico on the Gulf of Mexico to Acapulco on the Pacific, which region includes the cities of San Luis Potosi and Queretaro, capitals of the states of the same name.

Competition

The chicken industry is highly competitive and certain of the Company's competitors have greater financial and marketing resources than the Company. In the United States and Mexico, the Company competes principally with other vertically integrated chicken companies. In general, the competitive factors in the domestic chicken industry include price, product quality, brand identification, breadth of product line and customer service. Competitive factors vary by major market. In the foodservice market, competition is based on consistent quality, product development, service and price. In the domestic consumer market, management believes that product quality, brand awareness and customer service are the primary bases of competition. There is some competition with non vertically integrated further processors in the U.S. prepared food business. The Company believes it has significant, long term cost and quality advantages over non-vertically integrated further processors. In Mexico, where product differentiation is limited, price and product quality are the most critical competitive factors.

Other Activities

The Company markets fresh eggs under the Pilgrim's Pride brand name as well as private labels in various sizes of cartons and flats to domestic retail grocery and institutional foodservice customers located primarily in Texas. The Company has a housing capacity for approximately 2.3 million commercial egg laying hens which can produce approximately 41 million dozen eggs annually. Domestic egg prices are determined weekly based upon reported market prices. The domestic egg industry has been consolidating over the last few years with the 20 largest producers accounting for more than 65% of the total number of egg laying hens in service during 1995. The Company competes with other domestic egg producers, primarily on the basis of product quality, reliability, price and customer service. According to an industry publication, the Company is the twenty-fifth largest producer of eggs in the United States.

In fiscal 1995, exports of the Company's U.S. produced chicken accounted for approximately 5% of dollar sales. Exports were primarily to Asian, Middle Eastern and Eastern European countries. While current activity in these markets contributes only a small percentage of sales, the Company believes export demand will grow at an even faster rate than U.S. demand in the future. As export conditions become more favorable, management believes the Company is well-positioned to increase sales of both raw and cooked chicken to foreign countries.

The Company has regional distribution centers located in Arlington, El Paso, Mt. Pleasant and San Antonio, Texas; Phoenix and Tucson, Arizona; and Oklahoma City, Oklahoma that distribute the Company's own poultry products along with certain poultry and non-poultry products purchased from third parties. The Company's non-poultry distribution business is conducted as an accommodation to their customers and to achieve greater economies of scale in distribution logistics. They serve independent grocers and quick service restaurants. The store-door delivery capabilities for the Company's own poultry products provide a strategic service advantage in selling to quick service, national chain restaurants.

The Company also converts chicken by-products into protein products primarily for sale to manufacturers of pet foods. In addition, the Company produces and sells livestock feeds at its feed mill and farm supply store in Pittsburg, Texas, to dairy farmers and livestock producers in northeastern Texas.

Regulation

The chicken industry is subject to government regulation, particularly in the health and environmental areas. The Company's domestic chicken processing facilities are subject to on-site examination, inspection and regulation by the U.S.D.A. The F.D.A. inspects the production of the Company's domestic feed mills. The Company's Mexican food processing facilities and feed mills are subject to on-site examination, inspection and regulation by a Mexican governmental agency which performs functions similar to those performed by the U.S.D.A. and F.D.A. Since commencement of operations by the Company's predecessor in 1946, compliance with applicable regulations has not had a material adverse effect upon the Company's earnings or competitive position and such compliance is not anticipated to have a materially adverse effect in the future. Management believes that the Company is in substantial compliance with all applicable laws and regulations relating to the operations of its facilities.

The Company anticipates increased regulation by the U.S.D.A. concerning food safety, as well as by the F.D.A. concerning the use of medications in feed. Although the Company does not anticipate any such regulation having a material adverse effect upon the Company, no assurances can be given to that effect.

Employees and Labor Relations

As of December 15, 1995 the Company employed approximately 8,000 persons in the U.S. and 3,750 persons in Mexico. Approximately 700 employees at the Company's Lufkin, Texas facility are members of a collective bargaining unit represented by Local 540 of the United Food and Commercial Workers Union (the "UFCW"). None of the Company's other domestic employees have union representation. The Company has operated the Lufkin facility since its purchase in 1986 without a collective bargaining agreement. From February to June 22, 1993, the Company engaged in negotiations with the UFCW to reach a

collective bargaining agreement. On May 24 and 25, 1993, the Company experienced a UFCW-initiated work stoppage involving approximately 200 employees at the Lufkin facility. By May 26, 1993, substantially all of the employees had returned to work. On June 22, 1993, management declared that negotiations had reached an impasse and implemented the terms of their latest contract offer. On September 29, 1995 a federal judge appointed by the fifth circuit, found that the Company had not met its burden of proof in declaring that negotiations had in fact reached an impasse and that it was in error in implementing their last contract offer. The Company has filed an appeal to this decision, however, has yet to give oral arguments to the court. Additionally, the Company will resume negotiations with the union in efforts to reach a collective bargaining agreement. Unless and until a collective bargaining agreement is reached, there may be further work disruptions at this facility. However, because of the adequate labor supply in the Lufkin area and the Company's ability to shift portions of its production to other facilities, the Company does not believe that additional work disruptions, if any, will have a material adverse effect on the Company's operations or financial condition. In Mexico, most of the Company's hourly employees are covered by collective bargaining agreements as most employees are in Mexico. Except as described above, the Company has not experienced any work stoppages, and management believes that relations with the Company's employees are satisfactory.

Executive Officers of the Registrant

As of December 15, 1994, the following were the Executive Officers of the Company. Officers are elected annually by the Board of Directors to serve at the pleasure of the Board of Directors.

Executive Officers of the Company	Age	Positions
Lonnie "Bo" Pilgrim	67	Chief Executive Officer
Lindy M. "Buddy" Pilgrim	41	President and Chief Operating Officer
Clifford E. Butler	53	Chief Financial Officer, Secretary and Treasurer
David Van Hoose	53	President, Mexican Operations
Robert L. Hendrix	59	Executive Vice President Operations
Terry Berkenbile	45	Senior Vice President Sales & Marketing, Retail and Fresh Products
Richard A. Cogdill	35	Senior Vice President Corporate Controller
Ray Gameson	47	Senior Vice President Human Resources
O.B. Goolsby, Jr.	48	Senior Vice President Prepared Foods
Michael D. Martin	41	Senior Vice President DeQueen, Arkansas Complex
James J. Miner, Ph.D.	67	Senior Vice President Technical Services
Michael J. Murray	37	Senior Vice President Sales & Marketing, Prepared Foods
Robert N. Palm	51	Senior Vice President, Lufkin, Texas Complex

Mr. L. A. Pilgrim has served as Chairman of the Board and Chief Executive Officer since the organization of the Company in 1968. Prior to the incorporation of the Company, Mr. Pilgrim was a partner in the Company's predecessor partnership business founded in 1945.

Mr. L. M. Pilgrim serves as President and Chief Operating Officer of the

Company. He was elected as Director on March 8, 1993 and began employment in April 1993 under the title of President of U.S. Operations and Sales & Marketing. From April 1993 to March 1994, the President and Chief Operating Officer reported to him. After that time, the Chief Operating Officer title and responsibilities were incorporated into his own. Up to October 1990, Mr. Pilgrim was employed by the Company for 12 years in marketing and 9 years in operations. From October 1990 to April 1993, he was President of Integrity Management Services, Inc., a consulting firm to the food industry. He is a nephew of Lonnie "Bo" Pilgrim.

Mr. Butler has been employed by the Company since 1969. He has been a Director of the Company since 1969, was named Senior Vice President of Finance in 1973, and became Chief Financial Officer and Vice Chairman of the Board in July 1983.

Mr. Van Hoose has been President of Mexican Operations since April 1993. He was previously Senior Vice President, Director General, Mexican Operations since August 1990. Mr. Van Hoose was employed by Pilgrim's Pride in September 1988 as Senior Vice President, Texas Processing. Prior to that, Mr. Van Hoose was employed by Cargill, Inc., as General Manager of one of its chicken operations.

Mr. Hendrix has been Executive Vice President, Operations, of the Company since March 1994. Prior to that he served as Senior Vice President, NETEX Processing from August 1992 to March 1994 and as President and Chief of Complex Operations from September 1988 to March 1992. He was on leave from the Company from March 1992 to August 1992. He was President and Chief Operating Office of the Company from July 1983 to September 1988. He began as Senior Vice President in September 1981 when Pilgrim's Pride acquired Mountaire Corporation of DeQueen, Arkansas, and, prior thereto, he was Vice President of Mountaire Corporation.

Mr. Berkenbile was named Senior Vice President, Sales & Marketing, for Retail and Fresh Products in July 1994. Prior to that he was Vice President, Sales & Marketing, for Retail and Fresh Products since May 1993. From February 1991 to April 1993 Mr. Berkenbile was Director Retail Sales & Marketing at Hudson Foods. From February 1988 to February 1991, Mr. Berkenbile was Director Plant Sales at Pilgrim's Pride, prior thereto, he worked in the processed red meat industry.

Mr. Cogdill has been Senior Vice President, Corporate Controller, since August 1992. He was previously Vice President, Corporate Controller since October 1991. Prior to that he was a Senior Manager with Ernst & Young LLP. He is a Certified Public Accountant.

Mr. Gameson has been Senior Vice President of Human Resources since October 1994. He previously served as Vice President of Human Resources since August, 1993. From December 1991 to July 1993, he was employed by Townsends, Inc. and served as Complex Human Resource, Manager. Prior to that he was employed by the Company as Complex Human Resource, Manager, at its Mt. Pleasant, Texas location.

Mr. Martin has been Senior Vice President, DeQueen, Arkansas Complex Manager, of the Company since April 1993. He previously served as Plant Manager at the Company's Lufkin, Texas operations and Vice President, Processing, at the Company's Mt. Pleasant, Texas, operations up to April 1993. He has served in various other operating management positions in the Arkansas Complex since September 1981. Prior to that he was employed by Mountaire Corporation of DeQueen, Arkansas, until it was acquired by the Company in September 1981.

Dr. Miner, Ph.D., has been Senior Vice President, Technical Services, since April 1994. He has been employed by the Company and its predecessor partnership since 1966 and previously served as Senior Vice President responsible for live production and feed nutrition. He has been a Director since the incorporation of the Company in 1968.

Mr. Murray has been Senior Vice President, Sales & Marketing, for Prepared Foods since October 1994. He previously served as Vice President of Sales and Marketing, Food Service since August 1993. From 1990 to July 1993, he was employed by Cargill, Inc. Prior to that, from March 1987 to 1990 he was employed by Pilgrim's Pride as a Vice President for sales and marketing and prior thereto, he was employed by Tyson Foods, Inc.

Mr. Palm has been Senior Vice President, Lufkin, Texas, Complex Manager of the Company, since June 1985 and was previously employed in various operating

management positions by Plus-Tex Poultry, Inc., a Lufkin, Texas based company acquired by Pilgrim's Pride in June 1985.

Item 2. Properties

Production and Facilities

Breeding and Hatching

The Company supplies all of its domestic chicks by producing its own hatching eggs from domestic breeder flocks owned by the Company, approximately 38% of which are maintained on 38 Company-operated breeder farms. The Company currently owns or contracts for approximately 6.8 million square feet of breeder housing on approximately 198 breeder farms. In Mexico, all of the Company's breeder flocks are maintained on Company-owned farms.

The Company owns six hatcheries in the United States, located in Nacogdoches and Pittsburg, Texas, and DeQueen and Nashville, Arkansas, where eggs are incubated and hatched in a process requiring 21 days. Once hatched, the day-old chicks are inspected and vaccinated against common poultry diseases and transported by Company vehicles to grow-out farms. The Company's six domestic hatcheries have an aggregate production capacity of approximately 6.7 million chicks per week. In Mexico, the Company owns seven hatcheries, which have an aggregate production capacity of approximately 3.9 million chicks per week.

Grow-out

The Company places its domestically grown chicks on approximately 887 grow-out farms located in Texas and Arkansas. These farms provide the Company with approximately 43 million square feet of growing facilities. The Company operates 32 grow-out farms which account for approximately 10% of its total annual domestic chicken capacity. The Company also places chicks with farms owned by affiliates of the Company under grow-out contracts. The remaining chicks are placed with independent farms under grow-out contracts. Under such grow-out contracts, the farmers provide the facilities, utilities and labor. The Company supplies the chicks, the feed and all veterinary and technical services. Contract grow-out farmers are paid based on live weight under an incentive arrangement. In Mexico, the Company owns approximately 38% of its grow-out farms and contracts with independent farmers for the balance of its production. Arrangements with independent farmers in Mexico are similar to the Company's arrangements with contractors in the United States.

Feed Mills

An important factor in the production of chicken is the rate at which feed is converted into body weight. The Company purchases feed ingredients on the open market. The primary feed ingredients include corn, milo and soybean meal, which historically have been the largest component of the Company's total production cost. The quality and composition of the feed is critical to the conversion rate, and accordingly, the Company formulates and produces its own feed. Domestically, the Company operates five feed mills located in Nacogdoches and Pittsburg, Texas and Nashville and Hope, Arkansas. The Company currently has annual domestic feed requirements of approximately 1.7 million tons and the capacity to produce approximately 2.1 million tons. The Company owns four feed mills in Mexico which produce all of the requirements of its Mexican operations. Mexican feed requirements are approximately .5 million tons with a capacity to produce approximately 1.1 million tons. In fiscal 1995, approximately 55% of the grain used was imported from the United States. However, this percentage fluctuates based on the availability and cost of local grain supplies.

Feed grains are commodities subject to volatile price changes caused by weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. Although the Company can and sometimes does purchase grain in forward markets, it cannot eliminate the potential adverse effect of grain price increases.

Processing

Once the chickens reach processing weight, they are transported in the Company's trucks to the Company's processing plants. These plants utilize modern, highly automated equipment to process and package the chickens. The Company periodically reviews possible application of new processing technologies in order to enhance productivity and reduce costs. The Company's five domestic processing plants, two of which are located in Mt. Pleasant, Texas, and the remainder of which are located in Dallas and Lufkin, Texas, and DeQueen, Arkansas, have the capacity, under present U.S.D.A. inspection procedures, to produce approximately 1 billion pounds of dressed chicken annually. The Company's three processing plants located in Mexico, which perform fewer processing functions than the Company's U.S. facilities, have the

capacity to process approximately 650 million pounds of dressed chicken annually.

Prepared Foods Plant

The Company's prepared foods plant in Mt. Pleasant, Texas, was constructed in 1986 and expanded in 1987. This facility has deboning lines, marination systems, batter/breading systems, fryers, ovens, both mechanical and cryogenic freezers, a variety of packaging systems and cold storage. This plant is currently operating at the equivalent of two shifts a day for six days a week. If necessary, the Company could add additional shifts during the remaining days of the week.

Egg Production

The Company produces eggs at three farms near Pittsburg, Texas. One farm is owned by the Company, while two farms are operated under contract by an entity owned by a major stockholder of the Company. The eggs are cleaned, sized, graded and packaged for shipment at processing facilities located on the egg farms. The farms have a housing capacity for approximately 2.3 million producing hens and are currently housing approximately 2.0 million hens.

Other Facilities and Information

The Company operates a rendering plant located in Mt. Pleasant, Texas, that currently processes by-products from approximately 2.0 million chickens daily into protein products, which are used in the manufacture of chicken and livestock feed and pet foods. The Company operates a feed supply store in Pittsburg, Texas, from which it sells various bulk and sacked livestock feed products. The Company owns an office building in Pittsburg, Texas, which houses its executive offices, and an office building in Mexico City, which houses the Company's Mexican marketing offices. The Company also owns approximately 16,000 acres of farmland previously used in the Company's non-poultry farming operations. The Company is currently in the process of disposing of such land and related assets.

Substantially all of the Company's property, plant and equipment is pledged as collateral on its secured debt.

Item 3. Legal Proceedings

From time to time the Company is named as a defendant or co-defendant in lawsuits arising in the course of its business. The Company does not believe that such pending lawsuits will have a material adverse impact on the Company.

Item 4. Submission of Matters to a Vote of Security Holders

NOT APPLICABLE

Part II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

Quarterly Stock Prices and Dividends

High and low sales prices and dividends were:

Quarter	Prices 1995		Prices 1994		Dividends	
	High	Low	High	Low	1995	1994
First	\$10 3/8	\$9 3/8	\$8 1/4	\$6 5/8	\$.015	\$.015
Second	9 3/4	7 3/4	9 1/4	6 5/8	.015	.015
Third	8 3/8	7 1/2	9	6 3/8	.015	.015
Fourth	8 3/4	7 5/8	9 5/8	7 1/4	.015	.015

The Company's stock is traded on the New York Stock Exchange (ticker symbol CHX). The Company estimates there were approximately 12,500 holders (including individual participants in security position listings) of the Company's common stock as of December 19, 1995.

	Years Ended						
	1995	1994	1993 (a)	1992 (b)	1991	1990	1989
	(in thousands, except per share data)						
OPERATING RESULTS SUMMARY:							
Net sales	\$931,806	\$922,609	\$887,843	\$817,361	\$786,651	\$720,555	\$661,077
Gross margin	74,144	110,827	106,036 (c)	32,802 (c)	75,567	74,190	83,356
Operating income (loss)	24,930	59,698 (d)	56,345 (d)	(13,475)	31,039	33,379	47,014
Income (loss) before income taxes and extraordinary charge	2,091	42,448	32,838	(33,712)	12,235	20,463	31,027
Income tax expense (benefit)	10,058	11,390	10,543	(4,048)	(59)	4,826	10,745
Income (loss) before extraordinary charge	(7,967)	31,058	22,295	(29,664)	12,294	15,637	20,282
Extraordinary charge - early repayment of debt, net of tax	-	-	(1,286)	-	-	-	-
Net income (loss)	(7,967)	31,058	21,009	(29,664)	12,294	15,637	20,282
PER COMMON SHARE DATA:							
Income (loss) before extraordinary charge	\$ (0.29)	\$ 1.13	\$ 0.81	\$ (1.24)	\$ 0.54	\$ 0.69	\$ 0.90
Extraordinary charge - early repayment of debt	-	-	(0.05)	-	-	-	-
Net income (loss)	(0.29)	1.13	0.76	(1.24)	0.54	0.69	0.90
Cash dividends	0.06	0.06	0.03	0.06	0.06	0.06	0.06
Book value (e)	5.51	5.86	4.80	4.06	4.97	4.49	3.86
BALANCE SHEET SUMMARY:							
Working capital	\$ 88,395	\$ 99,724	\$ 72,688	\$ 11,227	\$ 44,882	\$ 54,161	\$ 60,313
Total assets	497,604	438,683	422,846	434,566	428,090	379,694	291,102
Short-term debt	18,187	4,493	25,643	86,424	44,756	30,351	9,528
Long-term debt, less current maturities	182,988	152,631	159,554	131,534	175,776	154,277	109,412
Total stockholders' equity	152,074	161,696	132,293	112,112	112,353	101,414	87,132
KEY INDICATORS (As a percent of sales):							
Gross Margin	8.0 %	12.0 %	11.9 % (c)	4.0 % (c)	9.6 %	10.3 %	12.6 %
Selling, general and administrative expenses	5.3 %	5.5 % (d)	5.6 % (c)	5.7 % (c)	5.7 %	5.7 %	5.5 %
Operating income (loss)	2.7 %	6.5 % (d)	6.3 % (d)	(1.6) %	3.9 %	4.6 %	7.1 %
Net interest expense	1.9 %	2.1 %	2.9 %	2.8 %	2.5 %	2.3 %	2.7 %
Net income (loss)	(0.9) %	3.4 %	2.4 %	(3.6) %	1.6 %	2.2 %	3.1 %

(a) 1993 had 53 weeks.

(b) During 1992, the Company changed the fiscal year-end of its Mexican subsidiaries from August to September to coincide with that of its

domestic operations. 1992 operating results included the operations of the Mexican subsidiaries for the twelve months ended September 26, 1992. Operating results for the Mexican subsidiaries during the month of September, 1991 have been reflected as a direct addition to stockholders' equity.

- (c) Reflects reclassification of certain expenses from selling, general and administrative to cost of sales of \$4.2 million and \$1.8 million in 1993 and 1992, respectively.

(See Note A to the Consolidated Financial Statements).

- (d) Reflects reclassification of foreign exchange (gain) losses from selling, general and administrative to a separate component of other expenses (income). (See Note A

to the Consolidated Financial Statements).

- (e) Amounts are based on end-of-period shares of common stock outstanding.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

GENERAL

The profitability of the chicken industry is affected by market prices of chicken and feed grains, both of which may fluctuate significantly and exhibit cyclical characteristics. In an effort to reduce price volatility and to generate higher, more consistent profit margins, the Company has concentrated on the production and marketing of prepared food products, which generally have higher margins than the Company's other products. This concentration has resulted in an increase in sales of prepared food products as a percentage of total domestic net sales from 28.3% in fiscal 1990 to 36.4% in fiscal 1995. Management believes that sales of prepared food products will become a larger component of its total chicken sales and, accordingly, changes in market prices for chicken and feed costs should have less impact on profitability.

RESULTS OF OPERATIONS

Fiscal 1995 Compared to Fiscal 1994:

Consolidated net sales were \$931.8 million for fiscal 1995, an increase of \$9.2 million, or 1.0%, over fiscal 1994. The increase in consolidated net sales resulted from a \$36.0 million increase in domestic chicken sales to \$671.1 million and a \$2.5 million increase in sales of other domestic products to \$101.2 million offset partially by a \$29.3 million decrease in Mexican chicken sales to \$159.5 million. The increase in domestic chicken sales was due primarily to a 3.6% increase in dressed pounds produced and a 2.0% increase in the total revenue per dressed pound produced. The decrease in Mexican chicken sales resulted from a 21.9% decrease in the total revenue per dressed pound produced caused primarily by the devaluation of the Mexican peso, offset by an 8.1% increase in dressed pounds produced. See Impact of Mexican Peso Devaluation discussed below.

Consolidated cost of sales was \$857.7 million in fiscal 1995, an increase of \$45.9 million, or 5.7%, over fiscal 1994. The increase primarily resulted from a \$39.2 million increase in cost of sales of domestic operations and a \$6.7 million increase in the cost of sales from Mexican operations.

The cost of sales increase in domestic operations of \$39.2 million was due primarily to a 3.6% increase in dressed pounds produced and increased production of higher margin products in prepared foods, offset partially by a 6.1% decrease in feed ingredient cost. While average feed costs were lower in fiscal 1995 than the previous year, subsequent to year end feed costs have increased substantially due to lower crop yields in the 1995 harvest season. Due to the commodity nature of feed there can be no assurance as to future feed costs.

The \$6.7 million cost of sales increase in Mexican operations was due primarily to an 8.1% increase in dressed pounds produced offset partially by a 3.6% decrease in average cost of sales per dressed pound resulting from the devaluation of the Mexican peso. See Impact of Peso Devaluation discussed below.

Gross profit as a percentage of sales decreased to 8.0% in fiscal 1995 from 12% in fiscal 1994. The decreased gross profit resulted mainly from the Company's Mexican operations and was primarily the result of the Mexican peso devaluation having a greater effect on selling prices than on cost of sales, due primarily to the dollar based characteristics of grain prices, which is a major component of cost of goods sold.

Consolidated selling, general and administrative expenses were \$49.2 million for fiscal 1995, a decrease of \$1.9 million, or 3.7%, when compared to fiscal 1994. Consolidated selling, general and administrative expenses as a

percentage of sales decreased in fiscal 1995 to 5.3% from 5.5% in fiscal 1994.

Consolidated operating income for fiscal 1995 was \$24.9 million compared to \$59.7 million in fiscal 1994. The decrease was due primarily to lower margins in Mexican chicken operations which resulted primarily from the effects of the Mexican peso devaluation as described previously.

Consolidated net interest expense was \$17.5 million in fiscal 1995, a decrease of \$1.7 million, or 8.8%, when compared to fiscal 1994. This decrease was due to lower average amounts of outstanding debt when compared to fiscal 1994.

Consolidated income tax expense decreased to \$10.1 million in fiscal 1995 compared to \$11.4 million in fiscal 1994. The high effective tax rate is due to the Company having positive taxable income in the United States offset by losses in Mexico which result in no current tax benefit under current Mexican tax laws.

Fiscal 1994 Compared to Fiscal 1993:

The Company's accounting cycle resulted in 52 weeks of operations in fiscal 1994 and 53 weeks in fiscal 1993.

Consolidated net sales were \$922.6 million for fiscal 1994, an increase of \$34.8 million, or 3.9%, over fiscal 1993. The increase in consolidated net sales resulted from a \$35.2 million increase in domestic chicken sales to \$635.2 million, partially offset by a \$.4 million decrease in sales of other domestic products to \$98.7 million. Mexican chicken sales remained constant at \$188.7 million. The increase in domestic chicken sales was primarily due to a 3.9% increase in the total revenue per dressed pound produced and a 1.9% increase in dressed pounds produced. The constant Mexican chicken sales resulted from a 2.4% increase in dressed pounds produced offset by a 2.3% decrease in the total revenue per dressed pound produced.

Consolidated cost of sales was \$811.8 million in fiscal 1994, an increase of \$30.0 million, or 3.8%, over fiscal 1993. The increase primarily resulted from a \$35.2 million increase in cost of sales of domestic operations offset by a \$5.2 million decrease in the cost of sales from Mexican operations.

The cost of sales increase in domestic operations of \$35.2 million was primarily due to a 5.7% increase in feed ingredient cost and a 1.9% increase in dressed pounds produced.

The cost of sales decrease in Mexican operations of \$5.2 million was primarily the result of a decrease in the average cost of sales per dressed pound produced, offset by a 2.4% increase in dressed pounds produced. The decrease in the average cost of sales per dressed pound produced when compared to the same period in 1993 was due to lower live production costs due to increased efficiencies.

Gross profit as a percentage of sales increased to 12.0% in fiscal 1994 from 11.9% in fiscal 1993. The improved gross profit resulted primarily from increased gross profit in the Company's domestic chicken operations resulting primarily from increased total revenue per dressed pound. The increase in gross profit as a percentage of sales in Mexican chicken operations resulted from a decrease in the average cost of sales per dressed pound produced, resulting from reduced live production costs.

Consolidated selling, general and administrative expenses were \$51.1 million for fiscal 1994, an increase of \$1.4 million, or 2.9%, when compared to fiscal 1993. Consolidated selling, general and administrative expenses as a percentage of sales decreased in fiscal 1994 to 5.5% from 5.6% in fiscal 1993.

Consolidated operating income for fiscal 1994 was \$59.7 million compared to \$56.3 million in fiscal 1993. The increase was due primarily to higher margins in domestic and Mexican chicken operations as described previously.

Consolidated net interest expense was \$19.2 million in fiscal 1994, a decrease of \$6.5 million, or 25.5%, when compared to fiscal 1993. This decrease was due to a reduction of fees and expenses incurred for refinancing and lower amounts of outstanding debt when compared to fiscal 1993.

Liquidity and Capital Resources:

Liquidity in fiscal 1995 remained strong despite operating losses in Mexico resulting primarily from the Mexican peso devaluation which caused erosion in most financial ratios. The Company's working capital at September 30, 1995

decreased to \$88.4 million from \$99.7 million at October 1, 1994. The current ratio at September 30, 1995 decreased to 1.84 to 1 from 2.34 to 1 at October 1, 1994 and the Company's stockholder's equity decreased to \$152.1 million at September 30, 1995 from \$161.7 million at October 1, 1994. The Company's ratio of total debt to capitalization increased to 56.9% at September 30, 1995 from 49.3% at October 1, 1994.

The Company maintains a \$75 million revolving credit facility with available unused lines of credit of \$51.7 million at December 1, 1995.

Trade accounts and notes receivable were \$60.0 million at September 30, 1995, a \$6.8 million increase from October 1, 1994. This 12.7% increase was due primarily to increased domestic sales offset partially by the effects of the Mexican peso devaluation and faster domestic collections experienced in fiscal 1995 when compared to the year ended October 1, 1994. Allowances for doubtful accounts, which primarily relate to receivables in Mexico, as a percentage of trade accounts and notes receivables were 6.7% at September 30, 1995 compared to 10.0% at October 1, 1994. This decrease is due primarily to the effects of the devaluation of the Mexican peso.

Inventories were \$110.4 million at September 30, 1995, a \$9.7 million increase from October 1, 1994. This 9.6% increase was primarily due to higher domestic inventories resulting from increased production offset by lower Mexican inventories caused by the Mexican peso devaluation.

Accounts payable were \$55.7 million at September 30, 1995, a \$17.0 million increase from October 1, 1994, primarily due to higher production levels and construction-in-progress from October 1, 1994.

Capital expenditures and business acquisitions for fiscal 1995 were \$35.2 million and \$36.2 million (of which \$29.5 million was for the acquisition of property, plant and equipment), respectively. Capital expenditures were primarily incurred to improve efficiencies, reduce costs and for the routine replacement of equipment. In fiscal 1995, the Company acquired certain assets of Union de Queretaro, et al located in Queretaro, Mexico for approximately \$35.3 million. See Note I to the Consolidated Financial Statements. The Company anticipates that it will spend approximately \$45 million for capital expenditures in fiscal year 1996 and expects to finance such expenditures with available operating cash flow, leases and long-term financing. Subsequent to year-end the Company secured a \$50 million long-term financing arrangement, to be collateralized by existing and new property, plant and equipment. The Company intends to use this facility to finance the aforementioned capital expenditures and to refinance certain existing long-term debt.

Cash flows provided by operating activities were \$32.7 million, \$60.7 million and \$45.0 million in fiscal 1995, 1994 and 1993, respectively. The change in cash flows provided by operating activities between the periods resulted primarily from changes in net income.

Cash provided by (used in) financing activities was \$40.2 million, \$(30.3) million and \$(40.3) million in fiscal 1995, 1994 and 1993, respectively. The cash provided by (used in) financing activities primarily reflects debt retirements in fiscal 1994 and 1993 and proceeds from notes payable and long-term financings in fiscal 1995.

The Company's deferred income taxes have resulted primarily from the Company's change from the cash method of accounting to the accrual method of accounting for taxable periods beginning after July 2, 1988. The Company's deferred income taxes arising from such change in method of accounting will continue to be deferred as long as (i) at least 50% of the voting stock and at least 50% of all other classes of stock of the Company continue to be owned by the Lonnie "Bo" Pilgrim family and (ii) the Company's net sales from its agricultural operation in a taxable year equal or exceed the Company's net sales from such operations in its taxable year ending July 2, 1988. Failure of the first requirement will cause all of the deferred taxes attributable to the change in accounting method to be due. Failure of the second requirement will cause a portion of such deferred taxes to be due based upon the amount of the relative decline in net sales from the agricultural operations. The family of Lonnie "Bo" Pilgrim currently owns approximately 65.1% of the stock of the company. Management believes that likelihood of the (i) Pilgrim family ownership falling below 50%, or (ii) gross receipts from agricultural activities falling below the 1988 level, is remote.

Impact of Mexican Peso Devaluation:

In December 1994, the Mexican government changed its policy of defending the

peso against the U.S. dollar and allowed it to float freely on the currency markets. These events resulted in the Mexican peso exchange rate declining from 3.39 to 1 U.S. dollar at October 1, 1994 to a low of 7.91 at November 15, 1995. On December 1, 1995 the Mexican peso closed at 7.56 to 1 U.S. dollar. No assurance can be given as to the future valuation of the Mexican peso and its resulting impact on the Company's operation. Further movement in the Mexican peso could affect future earnings positively or negatively.

Adjustments resulting from changes in currency exchange rates on net monetary assets are reflected in the statements of operations. Classification of the effects in the statement of operations is dependent upon the nature of the underlying asset and, in general, exchange rate effects on net monetary assets are reflected as "Other expenses (income) - Foreign exchange (gain) loss." During fiscal 1995, the peso's devaluation resulted in foreign exchange losses of \$5.6 million on net monetary assets.

Other:

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 establishes accounting standards for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of. SFAS No. 121 is scheduled to become mandatory for the Company's 1997 fiscal year. The Company has not determined the effect of adopting SFAS No. 121. There will be no cash flow impact from this accounting change.

Impact of Inflation:

Due to moderate inflation and the Company's rapid inventory turnover rate, the results of operations have not been adversely affected by inflation during the past three-year period.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements together with the report of independent auditors, and financial statement schedules are included on pages 34 through 51 of this document. Financial statement schedules other than those included herein have been omitted because the required information is contained in the consolidated financial statements or related notes, or such information is not applicable.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

NOT APPLICABLE

PART III

Item 10. Directors and Executive Officers of Registrant

Reference is made to "Election of Directors" on pages 3 through 5 of Registrant's Proxy Statement for its 1995 Annual Meeting of Stockholders, which section is incorporated herein by reference.

Reference is made to "Compliance with Section 16(a) of the Exchange Act" on page 9 of Registrant's Proxy Statement for its 1995 Annual Meeting of Stockholders, which section is incorporated herein by reference.

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

Information responsive to Items 11, 12 and 13 is incorporated by reference from sections entitled "Security Ownership", "Election of Directors", "Executive Compensation", and "Certain Transactions" of the Registrant's Proxy Statement for its 1995 Annual Meeting of Stockholders.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a) (1) The financial statements listed in the accompanying index to financial statements and schedules are filed as part of this report.
- (2) The schedules listed in the accompanying index to financial statements and schedules are filed as part of this report.
- (3) Exhibits
- 2.1 Agreement and Plan of Reorganization dated September 15, 1986, by and among Pilgrim's Pride Corporation, A Texas corporation; Pilgrim's Pride Corporation, a Delaware corporation; and Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston, Evanne Pilgrim, Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, Greta Pilgrim Owens and Patrick Wayne Pilgrim (incorporated by reference from Exhibit 2.1 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 3.1 Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 of the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 3.2 By-Laws of the Company (incorporated by reference from Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 4.1 Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 of the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 4.2 By-Laws of the Company (incorporated by reference from Exhibit 3.2 of the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 4.3 Indenture dated as of May 1, 1988, between the Company and Mtrust Corporation National Association relating to the Company's 14 1/4% Senior Notes Due 1995 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 4.4 First Supplemental Indenture dated as of October 4, 1990, between the Company and Ameritrust Texas, N.A. supplementing the Indenture dated as of May 1, 1988, between the Company and Mtrust Corporation National Association relating to the Company's 14 1/4% Senior Notes Due 1995 (incorporated by reference from Exhibit 4.4 of the Company's Form 8 filed on July 1, 1992).
- 4.5 Form of 14 1/4% Senior Note Due 1995 (incorporated by reference from Exhibit 4.2 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 4.6 Specimen Certificate for shares of Common Stock, Par value \$.01 per share, of the Company (incorporated by reference from Exhibit 4.6 of the Company's Form 8 filed on July 1, 1992).
- 4.7 Form of Indenture between the Company and Ameritrust Texas National Association relating to the Company's 10 7/8% Senior Subordinated Notes Due 2003 (incorporated by reference from Exhibit 4.6 of the Company's Registration Statement on Form S-1 (No. 33-59626) filed on March 16, 1993).
- 4.8 Form of 10 7/8% Senior Subordinated Note Due 2003 (incorporated by reference from Exhibit 4.8 of the Company's Registration Statement on Form S-1 (No. 33-61160) filed on June 16, 1993).
- 10.1 Pilgrim Industries, Inc., Profit Sharing Retirement Plan, restated as of July 1, 1987 (incorporated by reference from Exhibit 10.1 of the Company's Form 8 filed on July 1, 1992).
- 10.2 Bonus Plan of the Company (incorporated by reference from Exhibit 10.2

to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).

- 10.3 Aircraft Lease dated November 15, 1984, by and between L.A. Pilgrim d/b/a B.P. Leasing Company and the Company (incorporated by reference from Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.4 Broiler Grower Contract dated November 11, 1985, between the Company and Lonnie "Bo" Pilgrim (Farm #30) (incorporated by reference from Exhibit 10.9 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.5 Broiler Growing Agreements dated October 28, 1985, between the Company and Monty K. Henderson d/b/a Central Farms and Lone Oak Farms (incorporated by reference from Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.6 Broiler Growing Agreement dated March 27, 1986, between the Company and Clifford E. Butler (incorporated by reference from Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.7 Broiler Grower Contract dated July 10, 1990 between the Company and James J. Miner d/b/a/ BJM Farms (incorporated by reference from Exhibit 10.7 of the Company's Form 8 filed on July 1, 1992).
- 10.8 Commercial Egg Grower Contract dated July 1, 1986, between the Company and Pilgrim Poultry, Ltd. (incorporated by reference from exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.9 Agreement dated November 28, 1978, by and between the Company and Pilgrim Poultry, Ltd. (incorporated by reference from Exhibit 10.15 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.10 Agreement between the Company and its Principal Shareholders dated October 2, 1974, as amended July 1, 1979 (incorporated by reference from Exhibit 10.19 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.11 Note Purchase Agreement dated as of October 1, 1986, by and between the Company and Aetna Life Insurance Company with related Collateral Trust Indenture, as amended by First Supplemental Indenture dated as of November 1, 1986, and by letter dated September 29, 1987, Texas Mortgage, Arkansas Mortgage, Guarantee Agreement, as amended by First Amendment to Guarantee Agreement dated June 9, 1987, and Cash Pledge Agreement (incorporated by reference from Exhibit 10.21 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 10.12 Letter Agreement dated April 26, 1988, by and among Aetna Life Insurance Company, The Aetna Casualty and Surety Company, The Connecticut Bank and Trust Company and the Company and Letter Agreement dated April 26, 1988, by and among Bank of America National Trust and Savings Association, The Connecticut Bank and Trust Company and the Company amending Note Purchase Agreement dated as of October 1, 1986 (incorporated by reference from Exhibit 10.36 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 10.13 Note Purchase Agreement dated as of September 21, 1990, by and among the Company, Aetna Life Insurance Company and Bank of America National Trust and Savings Association (incorporated by reference from Exhibit 10.20 of the Company's Form 8 filed on July 1, 1992).
- 10.14 Amended and Restated Collateral Trust Indenture dated as of September 21, 1990, by and between the Company and State Street Bank and Trust Company of Connecticut, N.A. with related Notes, Modification Agreements and First Amendment to Guaranty (incorporated by reference from Exhibit 10.21 of the Company's Form 8 filed on July 1, 1992).

- 10.15 Supplemental Indenture and Waiver dated as of December 9, 1991, by and between the Company and State Street Bank and Trust Company of Connecticut, N.A. with related Notes, Modification Agreements and First Amendment to Guaranty, Amended and Restated Collateral Trust Indenture dated as of September 20, 1990 (incorporated by reference from Exhibit 10.24 of the Company's Form 10-K for the year ended September 26, 1992).
- 10.16 Loan Agreement dated as of August 1, 1988, by and between the Company and Angelina and Neches River Authority Industrial Development Corporation, with related Reimbursement and Credit Agreement (incorporated by reference from Exhibit 10.22 of the Company's Form 8 filed on July 1, 1992).
- 10.17 Indenture of Trust dated as of August 1, 1988, related to Loan Agreement by and between the Company and Angelina and Neches River Authority Industrial Development Corporation, with related Bond, Irrevocable Letter of Credit, Deed of Trust, Security Agreement, Assignment of Rents and Financing Statement (incorporated by reference from Exhibit 10.23 of the Company's Form 8 filed on July 1, 1992).
- 10.18 Assumption Agreement by and between the Company, Lonnie "Bo" Pilgrim and RepublicBank Lufkin, as trustee, dated June 14, 1985 (incorporated by reference from Exhibit 10.31 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.19 Stock Purchase Agreement dated September 15, 1986, among the Company, Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston and Evanne Pilgrim (incorporated by reference from Exhibit 2.2 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.20 Amendment No. 1 to Stock Purchase Agreement, dated as of October 31, 1986, among the Company, Doris Pilgrim Julian, Aubrey Hal Pilgrim, Paulette Pilgrim Rolston and Evanne Pilgrim (incorporated by reference from Exhibit 2.3 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.21 Limited Partnership Interest Purchase Agreement dated September 15, 1986, by and between the Company and Doris Pilgrim Julian (incorporated by reference from Exhibit 2.5 to the Company's Registration Statement on Form S-1 (No. 33-8805) effective November 14, 1986).
- 10.22 Employee Stock Investment Plan of the Company (incorporated by reference from Exhibit 10.28 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 10.23 Promissory Note dated February 1, 1988, by and between the Company and John Hancock Mutual Life Insurance Company with related Deed of Trust, Assignment of Rents and Security Agreement and Mortgage and Guaranty of Note and Mortgage (incorporated by reference from Exhibit 10.29 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 10.24 Letter from John Hancock Mutual Life Insurance Company dated April 25, 1988, amending Deed of Trust, Assignment of Rents and Security Agreement dated February 1, 1988 (incorporated by reference from Exhibit 10.35 of the Company's Registration Statement on Form S-1 (No. 33-21057) effective May 2, 1988).
- 10.25 Promissory Note dated April 25, 1991, by and between the Company and John Hancock Mutual Life Insurance Company, with related Modification Agreement and Guaranty of Note and Mortgage (incorporated by reference from Exhibit 10.31 of the Company's Form 8 filed on July 1, 1992).
- 10.26 Stock Purchase Agreement dated May 12, 1992, between the Company and Archer Daniels Midland Company (incorporated by reference from Exhibit 10.45 of the Company's Form 10-K for the year ended September 26, 1992).
- 10.27 Promissory Note dated September 21, 1988, by and between the Company and Charles Schreiner Bank, with related Warranty Deed with Vendor's Lien and Deed of Trust and Security Agreement (incorporated by reference from Exhibit 10.40 of the Company's Form 8 filed on July 1, 1992).
- 10.28 Promissory Note dated November 1, 1988, by and between the Company and The Connecticut Mutual Life Insurance Company, with related Deed of

Trust (incorporated by reference from Exhibit 10.41 of the Company's Form 8 filed on July 1, 1992).

- 10.29 Promissory Note dated September 20, 1990, by and between the Company and Hibernia National Bank of Texas (incorporated by reference from Exhibit 10.42 of the Company's Form 8 filed on July 1, 1992).
- 10.30 Loan Agreement dated October 16, 1990, by and among the Company, Lonnie "Bo" Pilgrim and North Texas Production Credit Association, with related Variable Rate Term Promissory Note and Deed of Trust (incorporated by reference from Exhibit 10.43 of the Company's Form 8 filed on July 1, 1992).
- 10.31 Secured Credit Agreement dated May 27, 1993, by and among the Company and Harris Trust and Savings Bank, and FBS AG Credit, Inc., Internationale Nederlanden Bank, N.V., Boatmen's First National Bank of Kansas City, and First Interstate Bank of Texas, N.A. (incorporated by reference from Exhibit 10.31 of the Company's Registration Statement on Form S-1 (No. 33-61160) filed on June 16, 1993).
- 10.32 Loan and Security Agreement dated as of June 3, 1993, by and among the Company, the banks party thereto and Creditanstalt-Bankverein, as agent (incorporated by reference from Exhibit 10.32 of the Company's Registration Statement on Form S-1 (No. 33-61160) filed on June 16, 1993).
- 10.33 First Amendment to Secured Credit Agreement dated June 30, 1994 to the Secured Credit Agreement dated May 27, 1993, by and among the Company and Harris Trust and Savings Bank, and FBS AG Credit, Inc., Internationale Nederlanden Bank N.V., Boatman's First National Bank of Kansas City and First Interstate Bank of Texas, N.A.
- 10.34 Amended and Restated Loan and Security Agreement date July 29, 1994, by and among the Company, the banks party thereto and Creditanstalt-Bankverein, as agent.
- 10.35 Supplemental Indenture dated October 2, 1994, by and between the Company and State Street Bank and Trust Company of Connecticut, N.A., and Guarantee Agreement, as amended by Second Amendment to Guarantee Agreement dated October 2, 1994.
- 10.36 Second Amendment to Secured Credit Agreement dated December 6, 1994 to the Secured Credit Agreement dated May 27, 1993, by and among the Company and Harris Trust and Savings Bank, and FBS AG Credit, Inc., Internationale Nederlanden Bank N.V., Boatman's First National Bank of Kansas City and First Interstate Bank of Texas, N.A.
- 10.37 Third Amendment to Secured Credit Agreement dated June 30, 1995 to the Secured Credit Agreement dated May 27, 1993, by and among the Company and Harris Trust and Savings Bank, and FBS AG Credit, Inc., Internationale Nederlanden Bank N.V., Boatman's First National Bank of Kansas City and First Interstate Bank of Texas, N.A.
- 10.38 Second Amended and Restated Loan and Security Agreement dated July 31, 1995, by and among the Company, the banks party thereto and Creditanstalt-Bankverein, as agent.
- 10.39 Revolving Credit Loan Agreement dated March 27, 1995 by and among the Company and Agricultural Production Credit Association.
- 10.40 First Supplement to Revolving Credit Loan Agreement dated July 6, 1995 by and among the Company and Agricultural Production Credit Association.

22. Subsidiaries of Registrant.*

23. Consent of Ernst & Young LLP.*

27. Financial Data Statement.

* Filed herewith

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K promulgated by the Securities and Exchange Commission, the Company has not filed as exhibits certain other instruments defining the rights of holders of long-term debt of the Company which instruments do not pertain to indebtedness in excess of 10% of the total assets of the Company. The Company hereby agrees to furnish

copies of such instruments to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

NOT APPLICABLE SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 20th day of December 1995.

PILGRIM'S PRIDE CORPORATION

By:

Clifford E. Butler
Vice Chairman of the Board and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dated indicated.

Signature	Title	Date
Lonnie "Bo" Pilgrim	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	12/20/95
Clifford E. Butler	Vice Chairman of the Board of Directors, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	12/20/95
Lindy M. "Buddy" Pilgrim	President and Chief Operating Officer and Director	12/20/95
Robert L. Hendrix	Executive Vice President Operations and Director	12/20/95
James J. Miner	Senior Vice President Technical Services and Director	12/20/95
Lonnie Ken Pilgrim	Vice President and Director	12/20/95
Charles L. Black	Director	12/20/95
Robert E. Hilgenfeld	Director	12/20/95
Vance C. Miller	Director	12/20/95
James J. Vetter, Jr.	Director	12/20/95

Donald L. Wass

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Pilgrim's Pride Corporation

We have audited the accompanying consolidated balance sheets of Pilgrim's Pride Corporation and subsidiaries as of September 30, 1995 and October 1, 1994, and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1995. Our audits also included the financial statement schedule listed on the Index as item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pilgrim's Pride Corporation and subsidiaries at September 30, 1995 and October 1, 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

2121 San Jacinto Street
Dallas, Texas
November 6, 1995

C O N S O L I D A T E D B A L A N C E S H E E T S
Pilgrim's Pride Corporation and Subsidiaries

	September 30, 1995	October 1, 1994
	(in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,892	\$ 11,244
Trade accounts and other receivables, less allowance for doubtful accounts	60,031	53,264
Inventories	110,404	100,749
Deferred income taxes	9,564	6,459
Prepaid expenses	526	1,280
Other current assets	953	1,249
TOTAL CURRENT ASSETS	193,370	174,245
OTHER ASSETS	20,918	20,891
PROPERTY, PLANT AND EQUIPMENT		
Land	17,637	15,153
Buildings, machinery and equipment	383,076	332,289
Autos and trucks	32,227	27,457

Construction-in-progress	9,841	4,853
	442,781	379,752
Less accumulated depreciation	159,465	136,205
	283,316	243,547
	\$ 497,604	\$ 438,683

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Notes payable to banks	\$ 13,000	\$ -
Accounts payable	55,658	38,675
Accrued expenses	31,130	31,353
Current maturities of long-term debt	5,187	4,493
TOTAL CURRENT LIABILITIES	104,975	74,521

LONG-TERM DEBT, less current maturities 182,988 152,631

DEFERRED INCOME TAXES 56,725 49,835

MINORITY INTEREST IN SUBSIDIARY 842 -

STOCKHOLDERS' EQUITY

Preferred stock, \$.01 par value, authorized 5,000,000 shares; none issued	-	-
Common stock, \$.01 par value, authorized 45,000,000 shares; 27,589,250 issued and outstanding in 1995 and 1994	276	276
Additional paid-in capital	79,763	79,763
Retained earnings	72,035	81,657

TOTAL STOCKHOLDERS' EQUITY 152,074 161,696

COMMITMENTS AND CONTINGENCIES - -

\$ 497,604 \$ 438,683

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) Pilgrim's Pride Corporation and Subsidiaries

	Years Ended		
	September 30, 1995 (52 weeks)	October 1, 1994 (52 weeks)	October 2, 1993 (53 weeks)
	(in thousands, except per share data)		
Net sales	\$ 931,806	\$ 922,609	\$ 887,843
Costs and expenses:			
Cost of sales	857,662	811,782	781,807
Selling, general and administrative	49,214	51,129	49,691
	906,876	862,911	831,498
OPERATING INCOME	24,930	59,698	56,345
Other expenses (income):			
Interest expense, net	17,483	19,173	25,719
Foreign exchange (gain) loss	5,605	(257)	243
Miscellaneous, net	(249)	(1,666)	(2,455)
	22,839	17,250	23,507
Income before income taxes and extraordinary charge	2,091	42,448	32,838
Income tax expense	10,058	11,390	10,543
Net income (loss) before extraordinary charge	(7,967)	31,058	22,295
Extraordinary charge-early repayment of debt, net of tax	-	-	(1,286)
NET INCOME (LOSS)	\$ (7,967)	\$ 31,058	\$ 21,009
Net income (loss) per common share before extraordinary charge	\$ (0.29)	\$ 1.13	\$ 0.81
Extraordinary charge per common share	-	-	(0.05)

Net income (loss) per common share \$ (0.29) \$ 1.13 \$ 0.76

See Notes to Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T S O F S T O C K H O L D E R S '
 E Q U I T Y
 Pilgrim's Pride Corporation and Subsidiaries

	Number of Shares (dollars in thousands)	Common Stock \$276	Additional Paid-in Capital \$79,763	Retained Earnings \$32,073	Total (per share data) \$112,112
Balance at September 26, 1992	27,589,250	\$276	\$79,763	\$32,073	\$112,112
Net income for year				21,009	21,009
Cash dividends declared (\$0.03 per share)				(828)	(828)
Balance at October 2, 1993	27,589,250	276	79,763	52,254	132,293
Net income for year				31,058	31,058
Cash dividends declared (\$0.06 per share)				(1,655)	(1,655)
Balance at October 1, 1994	27,589,250	276	79,763	81,657	161,696
Net loss for year				(7,967)	(7,967)
Cash dividends declared (\$.06 per share)				(1,655)	(1,655)
Balance at September 30, 1995	27,589,250	\$276	\$79,763	\$72,035	\$152,074

See Notes to Consolidated Financial Statements.

C O N S O L I D A T E D S T A T E M E N T S O F C A S H F L O W S
 Pilgrim's Pride Corporation and Subsidiaries

	September 30, 1995 (52 weeks)	Years Ended October 1, 1994 (52 weeks)	October 2, 1993 (53 weeks)
	(in thousands)		
Cash Flows From Operating Activities:			
Net income (loss)	\$ (7,967)	\$ 31,058	\$ 21,009
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	26,127	25,177	26,034
Gain on property disposals	(263)	(608)	(2,187)
Provision for doubtful accounts	1,133	2,666	2,124
Deferred income taxes	3,785	6,720	5,028
Extraordinary charge	-	-	1,904
Changes in operating assets and liabilities:			
Accounts and other receivables	(3,370)	3,412	(6,555)
Inventories	(4,336)	(8,955)	(2,366)
Prepaid expenses	1,066	(459)	4,175
Accounts payable and accrued expenses	15,249	1,742	(4,168)
Other	1,288	(89)	(28)
Net Cash Flows Provided by Operating Activities	32,712	60,664	44,970
Investing Activities:			
Acquisitions of property, plant and equipment	(35,194)	(25,547)	(15,201)
Business acquisitions - property, plant and equipment	(29,519)	-	-
- other net assets	(6,659)	-	-
Proceeds from property disposal	541	2,103	2,977
Other, net	(758)	(128)	713

Net Cash Used in Investing Activities	(71,589)	(23,572)	(11,511)
Financing Activities:			
Proceeds from notes payable to banks	15,000	7,000	28,419
Repayments on notes payable to banks	(2,000)	(19,000)	(81,398)
Proceeds from long-term debt	45,030	31	126,468
Payments on long-term debt	(16,202)	(16,253)	(106,302)
Cost of refinancing debt	-	-	(5,510)
Extraordinary charge, cash items	-	-	(1,188)
Cash dividends paid	(1,655)	(2,069)	(828)
Cash Provided by (Used in) Financing Activities	40,173	(30,291)	(40,339)
Effect of exchange rate changes on cash and cash equivalents	(648)	(83)	(144)
Increase (decrease) in cash and cash equivalents	648	6,718	(7,024)
Cash and cash equivalents at beginning of year	11,244	4,526	11,550
Cash and cash equivalents at end of year	\$ 11,892	\$ 11,244	\$ 4,526
Supplemental disclosure information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$ 16,764	\$ 19,572	\$ 23,015
Income taxes	\$ 5,128	\$ 7,108	\$ 3,688

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Pilgrim's Pride Corporation and Subsidiaries

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Pilgrim's Pride Corporation and its wholly owned subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated.

The financial statements of the Company's Mexican subsidiaries are remeasured as if the U.S. dollar were the functional currency. Accordingly, assets and liabilities of the Mexican subsidiaries are translated at end-of-period exchange rates, except for non-monetary assets which are translated at equivalent dollar costs at dates of acquisition using historical rates. Operations are translated at average exchange rates in effect during the period. Foreign exchange (gains) losses are separately stated as components of "Other expenses (income)" in the Consolidated Statement of Income (Loss). The amounts for 1994 and 1993 were previously classified as components of "Costs and expenses - Selling, general and administrative" in the Consolidated Statement of Income (Loss), but have been reclassified to conform with the 1995 classification.

During the fourth quarter of fiscal 1994 the Company reclassified certain expenses of its Mexican subsidiaries to conform to the classification in the United States. The effect of this change was to decrease selling, general and administrative expense and increase cost of sales by \$4.2 million in 1993.

Cash Equivalents: The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable: The Company does not believe it has significant concentrations of credit risk in its accounts receivable, which are generally unsecured. Credit evaluations are performed on all significant customers and updated as circumstances dictate. Allowances for doubtful accounts were \$4.3 million and \$5.9 million in 1995 and 1994, respectively.

Inventories: Live chicken inventories are stated at the lower of cost or market and hens at the lower of cost, less accumulated amortization, or market. The costs associated with hens are accumulated up to the production stage and amortized over the productive lives using the straight-line method. Finished chicken products, feed, eggs and other inventories are stated at the lower of cost (first-in, first-out method) or market. Occasionally, the Company hedges

a portion of its purchases of major feed ingredients using futures contracts to minimize the risk of adverse price fluctuations. Gains and losses on the hedge transactions are deferred and recognized as a component of cost of sales when products are sold.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of these assets. Depreciation expense was \$24.8 million, \$23.7 million and \$23.4 million in 1995, 1994 and 1993, respectively.

Net Income (Loss) per Common Share: Net income (loss) per share is based on the weighted average shares of common stock outstanding during the year. The weighted average number of shares outstanding was 27,589,250 in all periods.

NOTE B - INVENTORIES

Inventories consist of the following:

	September 30, 1995	October 1, 1994
	(in thousands)	
Live chickens and hens	\$ 55,353	\$ 47,743
Feed, eggs and other	32,087	22,529
Finished chicken products	22,964	30,477
	\$ 110,404	\$ 100,749

NOTE C - NOTES PAYABLE AND LONG-TERM DEBT

The Company maintains a \$75 million credit facility with various banks providing short-term lines of credit at interest rates of approximately one and one-eighth percent above LIBOR and, at September 30, 1995, availability under these lines totaled \$49.5 million. Inventories and trade accounts receivable of the Company are pledged as collateral on this facility. The fair value of the Company's long-term debt was estimated using quoted market prices, where available. For long-term debt not actively traded, fair values were estimated using discounted cash flow analysis using current market rates for similar types of borrowings. For certain debt instruments recently issued or modified, including the credit facility, the Company believes that their carrying amounts approximate fair value at September 30, 1995 and October 1, 1994.

The table below sets forth maturities on long-term debt during the next five years.

Year	Amount
(in thousands)	
1996	7,187
1997	10,913
1998	11,656
1999	11,704
2000	25,512

During 1993, the Company retired certain debt prior to their scheduled maturities. These repayments resulted in an extraordinary charge of \$1.3 million, net of \$.6 million tax benefit.

The Company is required, by certain provisions of its debt agreements, to maintain minimum levels of working capital and net worth, to limit dividends to a maximum of \$1.7 million per year, to maintain various fixed charge, leverage, current and debt-to-equity ratios, and to limit annual capital expenditures.

Total interest during 1995, 1994 and 1993 was \$19.1 million, \$20.1 million and \$26.4 million, respectively. Interest related to new construction capitalized in 1995, 1994 and 1993 was \$.6 million, \$.5 million and \$.2 million, respectively.

Long-term debt and the related fair values consist of the following:

September 30, 1995		October 1, 1994	
Carrying Amounts	Fair Value	Carrying Amounts	Fair Value

(in thousands)

Senior subordinated notes due August 1, 2003, interest at 10 % (effective rate of 11 %) payable in semi-annual installments, less discount of \$1,181,000 and \$1,330,000 in 1995 and 1994, respectively	\$ 98,819	\$ 96,219	\$ 98,670	\$ 96,824
Notes payable to bank, interest at LIBOR plus 1.8% and in 1995 and 1994, respectively, with principal payments of \$867,000 and \$950,500 in quarterly installments including interest in fiscal year 1996 and thereafter, respectively, plus one final balloon payment at maturity on June 1, 2000	30,233	30,233	15,400	15,400
Notes payable to an agricultural lender at a rate approximating LIBOR plus 1.65%, payable in equal monthly installments including interest through April 1, 2003	29,119	29,119	-	-
Senior secured debt payable to an insurance company at 10.49%, payable in equal annual installments beginning October 5, 1996 through September 21, 2002	22,000	23,930	22,000	23,293
Senior secured debt payable to an insurance company, interest at 9.55%, payable in equal annual installments through October 1, 1998	4,440	4,712	4,440	4,458
Other notes payable	3,564	3,745	16,614	17,050
	188,175	187,958	157,124	157,492
Less current maturities	5,187		4,493	
	\$182,988		\$152,631	

Substantially all of the Company's property, plant and equipment is pledged as collateral on its long-term debt.

NOTE D - INCOME TAXES

Income (loss) before income taxes after allocation of certain expenses to foreign operations for 1995, 1994 and 1993 was \$29.9 million, \$33.9 million and \$30.8 million, respectively, for domestic operations, and \$(27.8) million, \$8.6 million and \$2.0 million, respectively, for foreign operations. Provisions (benefits) for income taxes are based on pretax financial statement income.

The components of income tax expense (benefit) are set forth below:

	September 30, 1995	Years Ended October 1, 1994	October 2, 1993
	(in thousands)		
Current:			
Federal	\$ 5,215	\$ 4,573	\$ 2,993
Foreign	638	423	2,775
Other	420	(326)	(253)
	6,273	4,670	5,515
Deferred:			
Reinstatement of deferred taxes through utilization of tax credits and net operating losses	3,542	6,589	6,210
Accelerated tax depreciation	215	1,002	1,130
Effect of U.S. tax rate change on temporary differences	-	-	1,000
Expenses deductible in a different year for tax and financial reporting purposes	411	(580)	(1,782)
Reversal of deferred foreign income taxes upon Mexican tax law and restructuring changes	-	-	(1,110)
Other, net	(383)	(291)	(420)

	3,785	6,720	5,028
\$	10,058	\$ 11,390	\$ 10,543

The following is a reconciliation between the statutory U.S. federal income tax rate and the Company's effective income tax rate.

	Years Ended		
	September 30, 1995	October 1, 1994	October 2, 1993
Federal income tax rate	35.0%	35.0%	34.8%
State tax rate, net	40.1	2.3	2.2
Effect of Mexican loss being non-deductible in U.S.	411.1	-	-
Difference in U.S. statutory tax rate and Mexican effective tax rate	-	(10.7)	(2.5)
Reversal of deferred foreign income taxes upon Mexican law and restructuring changes	-	-	(3.4)
Effect of U.S. tax rate change on temporary differences	-	-	3.0
Benefit of (prior) current year losses not recognized	-	-	(5.3)
Other, net	(5.2)	0.2	3.3
	481.0%	26.8%	32.1%

Effective October 3, 1993, the Company adopted the provisions of FAS Statement No. 109, "Accounting for Income Taxes." As permitted under the new rules, prior years' financial statements have not been restated. The cumulative effect of adopting FAS Statement No. 109 as of October 3, 1993 and the impact of the adoption on the reported net income amounts for 1994 was not material.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	Years Ended	
	September 30, 1995	October 1, 1994
	(in thousands)	
Deferred tax liabilities:		
Tax over book depreciation	\$ 24,221	\$ 24,006
Prior use of cash accounting	33,572	33,290
Other	965	516
Total deferred tax liabilities	58,758	57,812
Deferred tax assets:		
AMT credit carryforward	2,972	6,629
General business credit carryforward	1,459	1,344
Expenses deductible in different years	7,166	6,463
Total deferred tax asset	11,597	14,436
Net deferred tax liabilities	\$ 47,161	\$ 43,376

Pursuant to a restructuring of activities completed by the Company's Mexican subsidiaries on January 1, 1993, approximately \$1.1 million of deferred taxes previously provided on earnings of the Company's nonagricultural Mexican subsidiaries was reversed as a credit to income tax expense in fiscal 1993. This restructuring, along with further restructuring of activities completed on January 1, 1994, allowed previously nonagricultural Mexican operations to be combined with existing agricultural operations and, as such, qualify for taxability as agricultural operations, which are currently not subject to taxes in Mexico. The current provision for foreign income taxes in 1995 is the result of an asset based minimum tax. The Company has not provided any U.S. deferred federal income taxes on the undistributed earnings of its Mexican subsidiaries based upon its determination that such earnings will be indefinitely reinvested. As of September 30, 1995, the cumulative undistributed earnings of these subsidiaries were approximately \$27.9 million.

If such earnings were not considered indefinitely reinvested, deferred federal and foreign income taxes would have been provided, after consideration of estimated foreign tax credits. (Included in this amount would be foreign taxes resulting from earnings of the Mexican agricultural subsidiaries which would be due upon distribution of such earnings to the U.S.) However, determination of the amount of deferred federal and foreign income taxes is not practicable.

As of September 30, 1995, approximately \$3.0 million of alternative minimum tax credits and \$1.5 million of targeted jobs credits were available to offset future taxable income. The targeted jobs credits expire in years ending in 2001 through 2010. All credits have been reflected in the financial statements as a reduction of deferred taxes. As these credits are utilized for tax purposes, deferred taxes will be reinstated.

NOTE E - SAVINGS PLAN

The Company maintains a Section 401(k) Salary Deferral Plan (the "Plan"). Under the Plan, eligible domestic employees may voluntarily contribute a percentage of their compensation. The Plan provides for a contribution of up to four percent of compensation subject to an overall Company contribution limit of five percent of income before taxes.

Under the plan outlined above, the Company's expenses were \$1.9 million, \$2.6 million and \$1.1 million in 1995, 1994 and 1993, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

The major stockholder of the Company owns an egg laying and a chicken growing operation. Transactions with related entities are summarized as follows:

Years Ended	September 30, 1995	October 1, 1994	October 2, 1993
	(in thousands)		
Contract egg grower fees to major stockholder	\$ 4,760	\$ 5,137	\$ 4,739
Chick, feed and other sales to major stockholder	12,478	9,373	8,298
Live chicken purchases from major stockholder	12,721	9,346	8,275
Purchases of feed ingredients from Archer Daniels Midland Company	44,250	56,499	37,757

The Company leases an airplane from its major stockholder under an operating lease agreement. The terms of the lease agreement require monthly payments of \$33,000 plus operating expenses. Lease expense was \$396,000 for each of the years 1995, 1994 and 1993. Operating expenses were \$149,000, \$213,000 and \$108,000 in 1995, 1994 and 1993, respectively.

Expenses incurred for the guarantee of certain debt by stockholders were \$623,000, \$526,000 and \$1,192,000 in 1995, 1994 and 1993, respectively.

NOTE G - COMMITMENTS AND CONTINGENCIES

The Consolidated Statements of Income (Loss) included rental expense for operating leases of approximately \$9.8 million, \$10.1 million and \$9.3 million in 1995, 1994 and 1993, respectively. The Company's future minimum lease commitments under noncancelable operating leases are as follows:

Year	Amount
(in thousands)	
1996	7,924
1997	6,022
1998	5,446
1999	4,559
2000	3,767
Thereafter	6,834

At September 30, 1995, the Company had \$12.5 million letters of credit outstanding relating to normal business transactions.

The Company is subject to various legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

NOTE H - BUSINESS SEGMENTS

The Company operates in a single business segment as a producer of agricultural products and conducts separate operations in the United States and Mexico.

Interarea sales, which are not material, are accounted for at prices comparable to normal trade customer sales. Identifiable assets by geographic area are those assets which are used in the Company's operation in each area.

Information about the Company's operations in these geographic areas is as follows:

	Years Ended		
	September 30, 1995	October 1, 1994	October 2, 1993
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$772,315	\$733,865	\$699,089
Mexico	159,491	188,744	188,754
	\$931,806	\$922,609	\$887,843
Operating income (loss):			
United States	\$ 41,923	\$ 46,421	\$ 46,471
Mexico	(16,993)	13,277	9,874
	\$ 24,930	\$ 59,698	\$ 56,345
Identifiable assets:			
United States	\$328,489	\$302,911	\$288,761
Mexico	169,115	135,772	134,085
	\$497,604	\$438,683	\$422,846

NOTE I -ACQUISITIONS AND INVESTMENTS

On July 5, 1995, the Company acquired certain assets of Union de Queretaro, et al, a group of five chicken companies located near Queretaro, Mexico for approximately \$35.3 million. These assets were integrated with the Company's existing Mexican operation, headquartered in Queretaro, Mexico, which is the second largest chicken operation in Mexico. The acquisition has been accounted for as a purchase, and the results of operations for this acquisition have been included in the Company's consolidated results of operations since the acquisition date. Pro forma operating results are not presented as they would not differ materially from actual results reported in 1995 and 1994. NOTE J -

QUARTERLY RESULTS - (Unaudited)

	Year Ended September 30, 1995				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in thousands, except per share data)				
Net sales	\$227,000	\$216,830	\$230,297	\$257,679	\$931,806
Gross profit	20,765	7,577	23,826	21,976	74,144
Operating income (loss)	8,742	(4,662)	11,843	9,007	24,930
Net income (loss)	556	(16,304)	6,143	1,638	(7,967)
Per share:					
Net income (loss)	0.02	(0.59)	0.22	0.06	(0.29)
Cash dividends	0.015	0.015	0.015	0.015	0.06
Market price:					
High	10 3/8	9 3/4	8 3/8	8 3/4	10 3/8
Low	9 3/8	7 3/4	7 1/2	7 5/8	7 1/2

	Year Ended October 1, 1994				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in thousands, except per share data)				
Net sales	\$221,851	\$223,167	\$238,302	\$239,289	\$922,609
Gross profit (a)	29,354	24,684	28,675	28,114	110,827
Operating income (b)	16,402	12,614	15,095	15,587	59,698
Net income	8,421	7,920	7,196	7,521	31,058
Per share:					
Net income	0.31	0.29	0.26	0.27	1.13
Cash dividends	0.015	0.015	0.015	0.015	0.060
Market price:					
High	8 1/4	9 1/4	9	9 5/8	9 5/8
Low	6 5/8	6 5/8	6 3/8	7 1/4	6 3/8

(a) In the fourth quarter of fiscal 1994, the Company reclassified certain

expenses previously reflected in selling, general and administrative expenses as cost of sales. Conforming changes have been made and reflected in the first three quarters of fiscal 1994 presented above.

(See Note A)

- (b) In fiscal year 1995, foreign exchange (gain) losses, previously reflected as components of selling, general and administrative expenses, have been separately stated in other expenses (income). Conforming changes have been made and reflected in the four quarters of fiscal 1994 presented above. (See Note A)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Col. A Col. B Col. C Col. D Col. E
 ADDITIONS

DESCRIPTION Balance at Charges to Changes to Other Deductions- Balance at End
 Beginning Costs and Accounts-Described of Period

Year ended September 30, 1995:

Reserves and allowances deducted
 from asset accounts:

Allowance for
 doubtful accounts \$5,906,000 \$1,333,000 \$-- \$2,759,000 (1) \$4,280,000

Year ended October 1, 1994:

Reserves and allowances deducted
 from asset accounts:

Allowance for
 doubtful accounts \$3,238,000 \$2,666,000 \$-- \$ (2,000) (2) \$5,906,000

Year ended October 2, 1993:

Reserves and allowances deducted
 from asset accounts:

Allowance for
 doubtful accounts \$1,146,000 \$2,124,000 (2) \$-- \$ 32,000 (2) \$3,238,000

(1) The decrease in the 1995 reserve account is primarily due to the devaluation of the peso.

(2) Uncollectible accounts written off, net of receivables.

EXHIBIT 22-SUBSIDIARIES OF REGISTRANT

1. AVICOLA PILGRIM'S PRIDE DE MEXICO, S.A. DE C.V.
2. ALIMENTOS BLANCEADOS PILGRIM'S PRIDE S.A. DE C.V.
3. AVICOLA PILGRIM'S PRIDE, S.A. DE C.V.
4. AVICOLA SAN MIGUEL, S.A. DE C.V.
5. AVICOLA Y GANADERA COLIAH, S.A. DE C.V.
6. AVICOLA Y GRANADERA DEL BAJIO, S.A. DE C.V.
7. AVINDUSTRIA E INVESTIGACION, S.A. DE C.V.
8. AVIPECUARIA IXTA, S.A. DE C.V.
9. AVIPECURIA VALVACO, S.A. DE C.V.
10. AVIPRODUCTORA, S.A. DE C.V.
11. COMPANIA INCUBADORA AVICOLA PILGRIM'S PRIDE, S.A. DE C.V.
12. CIA. INCUBADORA HIDALGO, S.A. DE C.V.
13. INMOBILIARIA AVICOLA PILGRIM'S PRIDE, S. DE R.L. DE C.V.
14. PILGRIM'S PRIDE, S.A. DE C.V.
15. PRODUCTORA Y DISTRIBUIDORA DE ALIMENTOS, S.A. DE. C.V.
16. AVICOLA Y GANADERA DEL CENTRO
17. GALLINA PESADA S.A. DE C.V.

EXHIBIT 23 - CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 3-12043) of Pilgrim's Pride Corporation of our report dated November 6, 1995, with respect to the consolidated financial statements and schedules of Pilgrim's Pride Corporation included in this Annual Report (Form 10-K) for the year ended September 30, 1995.

Ernst & Young LLP

2121 San Jacinto
Dallas, Texas 75201
December 20, 1995

Pilgrim's Pride Corporation
Third Amendment to Secured Credit Agreement

Harris Trust and Savings Bank
Chicago, Illinois

FBS Ag Credit, Inc.
Denver, Colorado

Internationale Nederlanden (U.S) Capital Corporation, formerly known
as Internationale Nederlanden Bank N. V. ("ING Bank")
New York, New York

Boatmen's First National Bank of Kansas City
Kansas City, Missouri

First Interstate Bank of Texas, N.A.
Dallas, Texas

Ladies and Gentlemen:

Reference is hereby made to that certain Secured Credit Agreement dated as of May 27, 1993, as amended (the "Credit Agreement") among the undersigned, Pilgrim's Pride Corporation, a Delaware corporation (the "Company"), you (the "Banks") and Harris Trust and Savings Bank, as agent for the Banks (the "Agent"). All defined terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.

The Banks extend a \$75,000,000 revolving credit facility to the Company on the terms and conditions set forth in the Credit Agreement. The Company, the Agent and the Banks now wish to amend the Credit Agreement to extend the Termination Date of the Credit Agreement, to permit the Company to make an acquisition, and to amend various financial covenants and other provisions of the Credit Agreement, all on the terms and conditions and in the manner set forth in this Amendment.

1. Amendments.

Upon satisfaction of all of the conditions precedent set forth in Section 2 hereof, the Credit Agreement shall be amended as follows:

1.1. Section 1.1(a) of the Credit Agreement shall be amended by replacing the date "May 31, 1997" appearing therein with the date "May 31, 1998".

1.2. Section 1.5 of the Credit Agreement shall be amended to read as follows: "Section 1.5. Intentionally Omitted."

1.3. Section 1.7 of the Credit Agreement shall be amended to read as follows:

.c2."Section 1.7. Reimbursement Obligation;. The Company is obligated, and hereby unconditionally agrees, to pay in immediately available funds to the Agent for the account of Harris and the Banks who are participating in L/Cs pursuant to Section 1.9 hereof the face amount of each draft drawn and presented under an L/C issued by Harris hereunder not later than 11:00 a.m. (Chicago Time) on the date such draft is presented for payment to Harris (the obligation of the Company under this Section 1.7 with respect to any L/C is a "Reimbursement Obligation"). If at any time the Company fails to pay any Reimbursement Obligation when due, the Company shall be deemed to have automatically requested a Domestic Rate Loan from the Banks hereunder, as of the maturity date of such Reimbursement Obligation, the proceeds of which Loan shall be used to repay such Reimbursement Obligation. Such Loan shall only be made if no Potential Default or Event of Default shall exist and upon approval by all of the Banks, and shall be subject to availability under the Revolving Credit. If such Loan is not made by the Banks for any reason, the unpaid amount of such Reimbursement Obligation shall be due and payable to the Agent for the pro rata benefit of the Banks upon demand and shall bear interest at the rate of interest specified in Section 1.3(d) hereof."

1.4. The second sentence of Section 1.8(a) of the Credit Agreement shall be amended to read as follows:
"Each such notice shall specify the date of the Revolving Credit Loan requested (which shall be a Business Day in the case of Domestic Rate Loans and CD Rate Loans and a Banking Day in the case of a Eurodollar Loan), the amount of such Revolving Credit Loan, whether the Revolving Credit Loan is to be made available by means of a Domestic Rate Loan, CD Rate Loan or Eurodollar Loan and, with respect to Fixed Rate Loans, the Interest Period applicable thereto; provided, that in no event

shall the principal amount of any requested Revolving Credit Loan plus the aggregate principal or face amount, as appropriate, of all Revolving Credit Loans, L/Cs, and unpaid Reimbursement Obligations outstanding hereunder exceed the amounts specified in Section 1.1 hereof."

1.5. Section 1.9 of the Credit Agreement shall be amended to read as follows:

"Section 1.9. Participation in L/Cs. Each of the Banks will acquire a risk participation for its own account, without recourse to or representation or warranty from Harris, in each L/C upon the issuance thereof ratably in accordance with its Commitment Percentage. In the event any Reimbursement Obligation is not immediately paid by the Company pursuant to Section 1.7 hereof, each Bank will pay to Harris funds in an amount equal to such Bank's ratable share of the unpaid amount of such Reimbursement Obligation (based upon its proportionate share relative to its percentage of the Revolving Credit (as set forth in Section 1.1 hereof)). At the election of all of the Banks, such funding by the Banks of the unpaid Reimbursement Obligations shall be treated as additional Revolving Credit Loans to the Company hereunder rather than a purchase of participations by the Banks in the related L/Cs held by Harris. The availability of funds to the Company under the Revolving Credit shall be reduced in an amount equal to any such L/C. The obligation of the Banks to Harris under this Section 1.9 shall be absolute and unconditional and shall not be affected or impaired by any Event of Default or Potential Default which may then be continuing hereunder. Harris shall notify each Bank by telephone of its proportionate share relative to its percentage of the total Banks' Revolving Credit Commitments set forth in Section 1.1 hereof (a "Commitment Percentage") of such unpaid Reimbursement Obligation. If such notice has been given to each Bank by 12:00 Noon, Chicago time, each Bank agrees to pay Harris in immediately available and freely transferable funds on the same Business Day. If such notice is received after 12:00 noon, Chicago time, each Bank agrees to pay Harris in immediately available and freely transferable funds no later than the following Business Day. Funds shall be so made available at the account designated by Harris in such notice to the Banks. Upon the election by the Banks to treat such funding as additional Revolving Credit Loans hereunder and payment by each Bank, such Loans shall bear interest in accordance with Section 1.3(a) hereof. Harris shall share with each Bank on a pro rata basis relative to its Commitment Percentage a portion of each payment of a Reimbursement Obligation (whether of principal or interest) and any L/C Fee (but not any L/C Issuance Fee) payable by the Company. Any such amount shall be promptly remitted to the Banks when and as received by Harris from the Company."

1.6. Sections 3.4 and 3.5 of the Credit Agreement shall be amended to read as follows:

".c2.Section 3.4. Mandatory Prepayments - Borrowing Base. The Company shall not permit the sum of the principal amount of all Loans plus the amount available for drawing under all L/Cs and the aggregate principal amount of all unpaid Reimbursement Obligations at any time outstanding to exceed the lesser of (i) the sum of the Banks' Revolving Credit Commitments or (ii) the Borrowing Base as determined on the basis of the most recent Borrowing Base Certificate. In addition to the Company's obligations to pay any outstanding Reimbursement Obligations as set forth in Section 1.7 hereof, the Company will make such payments on any outstanding Loans and Reimbursement Obligations (and, if any L/Cs are then outstanding, deposit an amount equal to the aggregate amount available for drawing under all L/Cs into an interest bearing account with the Agent which shall be held as additional collateral security for such L/Cs) which are necessary to cure any such excess within three Business Days after the occurrence thereof. Any amount prepaid under the Revolving Credit may, subject to the terms and conditions of this Agreement, be borrowed, prepaid and borrowed again.

Section 3.5. Place and Application of Payments. All payments of principal and interest made by the Company in respect of the Notes and Reimbursement Obligations and all fees payable by the Company hereunder, shall be made to the Agent at its office at 111 West Monroe Street, Chicago, Illinois 60690 and in immediately available funds, prior to 12:00 noon on the date of such payment. All such payments shall be made without setoff or counterclaim and without reduction for, and free from, any and all present and future levies, imposts, duties, fees, charges, deductions withholdings, restrictions

or conditions of any nature imposed by any government or any political subdivision or taxing authority thereof. Unless the Banks otherwise agree, any payments received after 12:00 noon Chicago time shall be deemed received on the following Business Day. The Agent shall remit to each Bank its proportionate share of each payment of principal, interest and facility fees, and L/C fees received by the Agent by 3:00 P.M. Chicago time on the same day of its receipt if received by the Agent by 12:00 noon, Chicago time, and its proportionate share of each such payment received by the Agent after 12:00 noon on the Business Day following its receipt by the Agent. In the event the Agent does not remit any amount to any Bank when required by the preceding sentence, the Agent shall pay to such Bank interest on such amount until paid at a rate per annum equal to the Fed Funds Rate. The Company hereby authorizes the Agent to automatically debit its account with Harris for any principal, interest and fees when due under the Notes, any L/C Agreement or this Agreement and to transfer the amount so debited from such account to the Agent for application as herein provided. All proceeds of Collateral shall be applied in the manner specified in the Security Agreement."

1.7. The Credit Agreement shall be amended by adding the following provision after Section 3.5 of the Credit Agreement or Section 3.6 of the Credit Agreement.

"3.6. Acquisition Fee. Upon the completion of the Queretaro Acquisition, the Company shall pay the Agent for the account of the Banks a non-refundable fee in an amount equal to one-half of one percent (0.5%) of the Revolving Credit Commitments (determined without regard to any usage thereunder)."

1.8. Section 4.8 of the Credit Agreement shall be amended to read as follows:

"4.8. "Applicable Margin" shall mean, with respect to each type of Loan described in Column A below, the rate of interest per annum shown in Columns B, C, D and E below for the range of Leverage Ratio specified for each Column:

A	B	C	D	E
Leverage Ratio	<0.45 to 1	>.45 to 1 and <0.5 to 1	>0.5 to 1 and <.60 to 1	>.60 to 1 and <.70 to 1
Eurodollar Loans	0.75%	1.125%	1.375%	1.75%
Domestic Rate Loans	0.0%	0.125%	0.375%	0.75%
CD Rate Loans	0.875%	1.25%	1.50%	1.875%

Not later than 5 Business Days after receipt by the Agent of the financial statements called for by Section 7.4 hereof for the applicable fiscal quarter, the Agent shall determine the Leverage Ratio for the applicable period and shall promptly notify the Company and the Banks of such determination and of any change in the Applicable Margins resulting therefrom. Any such change in the Applicable Margins shall be effective as of the date the Agent so notifies the Company and the Banks with respect to all Loans outstanding on such date, and such new Applicable Margins shall continue in effect until the effective date of the next quarterly redetermination in accordance with this Section. Each determination of the Leverage Ratio and Applicable Margins by the Agent in accordance with this Section shall be conclusive and binding on the Company and the Banks absent manifest error. From the date hereof until the Applicable Margins are first adjusted pursuant hereto, the Applicable Margins shall be those set forth in column E above."

1.9. Section 4.38 of the Credit Agreement shall be amended by inserting the word "and" after the semi-colon at the end of subsection (e) thereof, by replacing the phrase "; and" appearing at the end of subsection (f) thereof with a period, and by deleting subsection (g) thereof.

1.10. Sections 4.10 and 4.11 of the Credit Agreement shall be amended to read as follows:

"4.10. Intentionally Omitted.

4.11. Intentionally Omitted."

1.11. Section 4.70 of the Credit Agreement shall be amended by deleting the phrase ", the B/A Agreement" appearing therein.

1.12. The Credit Agreement shall be amended by adding the following provisions after Section 4.106 of the Credit Agreement as Section 4.107 of the Credit Agreement.

"4.107. Queretaro Acquisition" shall mean the acquisition of all or substantially all of the capital stock or assets of Union de

Queretaro, a group of companies organized in the state of Queretaro, Mexico, by the Company."

1.13. Section 4.101(b) of the Credit Agreement shall be amended to read as follows:

"(b) With respect to Eligible Inventory consisting of live broiler chickens, a price per pound equal to 75% of (i) the price quoted on the Los Angeles Majority Market on the date of calculation minus (ii) \$0.085, rounded up to the nearest 1/4 cent;"

1.14. The introductory sentence to Section 6 of the Credit Agreement shall be amended by deleting the phrase " or to create any B/A" appearing therein.

1.15. Section 6.1 of the Credit Agreement shall be amended by deleting the phrase "and B/As" appearing therein.

1.16. Section 6.3 of the Credit Agreement shall be amended to read as follows:

".c2.Section 6.3. Each Extension of Credit;. As of the time of the making of each Loan and the issuance of each L/C hereunder (including the initial Loan or L/C, as the case may be):

(a) each of the representations and warranties set forth in Section 5 hereof shall be and remain true and correct as of said time as if made at said time, except that (i) the representations and warranties made under Section 5.3 shall be deemed to refer to the most recent financial statements furnished to the Banks pursuant to Section 7.4 hereof and (ii) with respect to the Company's Subsidiaries in Mexico the representations and warranties made under Section 5.13(d) shall be deemed to refer only to material strikes, work stoppages, unfair labor practice claims or other material labor disputes;

(b) the Company shall be in full compliance with all of the terms and conditions hereof, and no Potential Default or Event of Default shall have occurred and be continuing; and

(c) after giving effect to the requested extension of credit and to each Loan that has been made and L/C issued hereunder, the aggregate principal amount of all Loans, the amount available for drawing under all L/Cs and the aggregate principal amount of all Reimbursement Obligations then outstanding shall not exceed the lesser of (i) the sum of the Banks' Revolving Credit Commitments then in effect and (ii) the Borrowing Base as determined on the basis of the most recent Borrowing Base Certificate, except as otherwise agreed by the Company and all of the Banks; and the request by the Company for any Loan or L/C pursuant hereto shall be and constitute a warranty to the foregoing effects."

1.17. The introductory phrase to Section 7 of the Credit Agreement shall be amended by replacing the phrase ", L/C or B/A" appearing therein with the phrase "or L/C".

1.18. Section 7.4(d) of the Credit Agreement shall be amended by deleting the phrase ", accompanied by a warehouse receipt issued by the Warehouseman covering no less than all of the Inventory shown on such Borrowing Base Certificate" appearing at the end thereof.

1.19. Section 7.6 of the Credit Agreement shall be amended to read as follows:

.c2."Section 7.6. Consolidation and Merger;. The Company will not, and will not permit any Subsidiary to, consolidate with or merge into any Person, or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all the Property of the other Person, or acquire substantially as an entirety the business of any other Person, without the prior written consent of the Required Banks; provided, however, that if no Potential Default or Event of Default shall have occurred and be continuing the Company may (a) acquire all or substantially all the Property of the other Person, or acquire substantially as an entirety the business of any other Person if the aggregate fair market value of all consideration paid or payable by the Company in all such acquisitions made in any Fiscal Year does not exceed \$10,000,000, and (b) consummate the Queretaro Acquisition on or before December 31, 1995 for an aggregate consideration (including the fair market value of any Property transferred by the Company and the aggregate amount of all liabilities assumed by the Company) payable by the Company of up to \$30,000,000."

1.20. Section 7.8 of the Credit Agreement shall be amended to read as follows:

.c2."Section 7.8. Leverage Ratio;. The Company will not permit the ratio of its Leverage Ratio at any time during each period specified below to exceed the ratio specified below for such period:

(a) during Fiscal Year 1995, 0.65 to 1;

- (b) during Fiscal Year 1996, 0.625 to 1;
- (c) during Fiscal Year 1997, 0.60 to 1; and
- (d) during each Fiscal Year thereafter, 0.575 to 1."

1.21. Sections 7.10 of the Credit Agreement shall be amended to read as follows:

"c2.Section 7.10. Current Ratio;. The Company will maintain at all times and measured as of the last day of each monthly fiscal accounting period a Current Ratio of not less than (a) from and after the date the Queretaro Acquisition is completed, 1.25 to 1, and (b) prior to the completion of the Queretaro Acquisition, (i) 1.50 to 1 during Fiscal Year 1995, (ii) 1.30 to 1 during Fiscal Year 1996 and Fiscal Year 1997, and (iii) 1.35 to 1 during Fiscal Year 1998."

1.22. Sections 7.13 and 7.14 of the Credit Agreement shall be amended to read as follows:

.c2."Section 7.13. Minimum Net Working Capital;. The Company will maintain Net Working Capital at all times during each period specified below (measured as of the last day of each monthly fiscal accounting period) in an amount not less than the amount specified below for each period:

- (a) Prior to the date the Queretaro Acquisition is completed:
 - (i) during Fiscal Year 1995, \$65,000,000;
 - (ii) during Fiscal Year 1996, \$45,000,000;
 - (iii) during Fiscal Year 1997, \$48,000,000; and
 - (iv) at all times thereafter, \$53,000,000; and
- (b) from and after the date the Queretaro Acquisition is Completed:
 - (i) during Fiscal Year 1995 and Fiscal Year 1996, \$40,000,000;
 - (ii) during Fiscal Year 1997, \$45,000,000; and
 - (iii) at all times thereafter, \$50,000,000."

.c2.Section 7.14. Capital Expenditures;. The Company will not, and will not permit any Subsidiary to, make or commit to make any capital expenditures (as defined and classified in accordance with generally accepted accounting principles consistently applied;) provided, however, that if no Event of Default or Potential Default shall exist before and after giving effect thereto, the Company and its Subsidiaries may make capital expenditures (a) during Fiscal Year 1994, in an amount not to exceed an amount equal to 115% of the Company's depreciation and amortization charges for Fiscal Year 1993, (b) during Fiscal Year 1995, (i) \$50,700,000 if the Queretaro Acquisition is not completed, and (ii) \$77,700,000 if the Queretaro Acquisition is completed, and (c) during each Fiscal Year thereafter, in an aggregate amount in each Fiscal Year commencing with Fiscal Year 1996 not to exceed the sum of (i) an amount equal to 115% of the Company's depreciation and amortization charges for the preceding Fiscal Year and (ii) the amount, if any, by which such capital expenditures made by the Company in the immediately preceding Fiscal Year was less than the maximum amount of capital expenditures the Company was permitted to make under this Section 7.14 during such Fiscal Year, determined without regard to any carryover amount from any prior Fiscal Year, but not to exceed \$5,000,000 in any Fiscal Year."

1.23. Section 7.17(1) of the Credit Agreement shall be amended by replacing the phrase "any date of determination" appearing therein with the phrase "the last day of such Fiscal Year".

1.24. Section 7.18(g) of the Credit Agreement shall be amended to read as follows:

"(g) loans, investments (excluding retained earnings) and advances by the Company to its Subsidiaries located in Mexico in an aggregate outstanding amount not to exceed (i) \$140,000,000 if the Queretaro Acquisition is completed and (ii) \$105,000,000 if the Queretaro Acquisition is not completed at any time, provided, however, that the Company may make loans, investments (excluding retained earnings) and advances to its Subsidiaries located in Mexico in an aggregate amount equal to the aggregate amount of any capital withdrawn from its Mexican Subsidiaries after the date hereof but not to exceed an aggregate amount of \$25,000,000 in any Fiscal Year of the Company, provided further that any such investments (excluding retained earnings), loans and advances shall not cause the aggregate outstanding amount of all such loans, investments (excluding retained earnings) and advances to exceed (i) \$140,000,000 if the Queretaro Acquisition is completed and (ii) \$105,000,000 if the Queretaro Acquisition is not completed at any time;"

1.25. Section 8.1(a) of the Credit Agreement shall be amended by replacing the number "2.4" appearing in line 3 thereof with the number "3.4".

1.26. Section 8.4 of the Credit Agreement shall be amended to read as follows:

".c2.Section 8.4. L/Cs. Promptly following the acceleration of the maturity of the Notes pursuant to Section 8.2 or 8.3 hereof, the Company shall immediately pay to the Agent for the benefit of the Banks the full aggregate amount of all outstanding L/Cs. The Agent shall hold all such funds and proceeds thereof as additional collateral security for the obligations of the Company to the Banks under the Loan Documents. The amount paid under any of the L/Cs for which the Company has not reimbursed the Banks shall bear interest from the date of such payment at the default rate of interest specified in Section 1.3(c) (i) hereof."

1.27. Section 9.3 of the Credit Agreement shall be amended by replacing the number "2.3" appearing in the next to last line thereof with the number "3.3".

1.28. All references in the Borrowing Base Certificate to the "Arkansas live market" shall be deemed references to the price determined in accordance with Section 4.101(b) of the Credit Agreement as amended hereby.

2. Conditions Precedent.

The effectiveness of the Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Company and each of the Banks shall have executed this Amendment (such execution may be in several counterparts and the several parties hereto may execute on separate counterparts).

2.2. Mr. and Mrs. Lonnie A. Pilgrim shall have executed and delivered to the Banks the Guarantors' Consent in the form set forth below.

2.3. Each of the representations and warranties set forth in Section 5 of the Credit Agreement shall be true and correct.

2.4. The Company shall be in full compliance with all of the terms and conditions of the Credit Agreement and no Event of Default or Potential Default shall have occurred and be continuing thereunder or shall result after giving effect to this Amendment.

2.5. All legal matters incident to the execution and delivery hereof and the instruments and documents contemplated hereby shall be satisfactory to the Banks.

2.6. Harris shall have received a written consent from CoBank with respect to this Amendment in the form set forth below.

2.7. The Agent shall have received (in sufficient counterparts for distribution to each of the Banks) all of the following in a form satisfactory to the Agent, the Banks and their respective counsel:

(a) copies (executed or certified as may be appropriate) of all legal documents or proceedings taken in connection with the execution and delivery of this Amendment, and the other instruments and documents contemplated hereby; and

(b) Opinion of counsel to the Company substantially in a form as set forth in Exhibit A hereto and satisfactory to the Agent, the Banks and their respective counsel.

2.8. The Agent shall have received for the ratable benefit of the Banks an amendment fee in an amount equal to one-eighth of one percent (0.125%) of the maximum amount of the Revolving Credit.

Section 3. Representations And Warranties.

Section 3.1. The Company, by its execution of this Amendment, hereby represents and warrants the following:

(a) each of the representations and warranties set forth in Section 5 of the Credit Agreement is true and correct as of the date hereof, except that the representations and warranties made under Section 5.3 shall be deemed to refer to the most recent annual report furnished to the Banks by the Company; and

(b) the Company is in full compliance with all of the terms and conditions of the Credit Agreement and no Event of Default or Potential Default has occurred and is continuing thereunder.

4. Miscellaneous.

4.1. The Company has heretofore executed and delivered to the Agent that certain Security Agreement Re: Accounts Receivable, Farm Products and Inventory dated as of May 27, 1993 (the "Security Agreement") and the Company hereby agrees that the Security Agreement shall secure all of the Company's indebtedness, obligations and liabilities to the Agent and the Banks under the Credit Agreement as amended by this Amendment, that notwithstanding the execution and

delivery of this Amendment, the Security Agreement shall be and remain in full force and effect and that any rights and remedies of the Agent thereunder, obligations of the Company thereunder and any liens or security interests created or provided for thereunder shall be and remain in full force and effect and shall not be affected, impaired or discharged thereby. Nothing herein contained shall in any manner affect or impair the priority of the liens and security interests created and provided for by the Security Agreement as to the indebtedness which would be secured thereby prior to giving effect to this Amendment.

4.2. Except as specifically amended herein the Credit Agreement and the Notes shall continue in full force and effect in accordance with their original terms. Reference to this specific Amendment need not be made in any note, document, letter, certificate, the Credit Agreement itself, the Notes, or any communication issued or made pursuant to or with respect to the Credit Agreement or the Notes, any reference to the Credit Agreement or Notes being sufficient to refer to the Credit Agreement or the Notes as amended hereby.

4.3. The Company agrees to pay all out-of-pocket costs and expenses incurred by the Agent and Banks in connection with the preparation, execution and delivery of this Amendment and the documents and transactions contemplated hereby, including the fees and expenses of Messrs. Chapman and Cutler.

4.4. This Amendment may be executed in any number of counterparts, and by the different parties on different counterparts, all of which taken together shall constitute one and the same Agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original.

4.5. (a) This Amendment and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of Illinois, except to the extent provided in Section 5.5(b) hereof and to the extent that the Federal laws of the United States of America may otherwise apply.

(b) Notwithstanding anything in Section 5.5(a) hereof to the contrary, nothing in this Amendment, the Credit Agreement, the Notes, or the Other Loan Documents shall be deemed to constitute a waiver of any rights which the Company, the Agent or any of the Banks may have under the National Bank Act or other applicable Federal law.

Dated as of June 30, 1995.

Pilgrim's Pride Corporation

By Lonnie Bo Pilgrim
Its Chief Executive Officer

Accepted and Agreed to as of the day and year last above written.

Harris Trust And Savings Bank individually and as Agent

By Carl Blackham
Its Vice President

FBS Ag Credit, Inc.

By Douglas Hoffner
Its Vice President

Internationale Nederlanden (U.S.) Capital Corporation, formerly known
as Internationale Nederlanden Bank N. V.

By Daniel W. Lamprecht
Its Vice President

Boatmen's First National Bank of Kansas City

By Randy Anders
Its Vice President

First Interstate Bank of Texas, N.A.

By Ken Taylor
Its Banking Officer

CoBank's Consent

The undersigned National Bank for Cooperatives hereby consents to the execution and delivery by Harris Trust and Savings Bank of the above and foregoing Amendment.

Dated as of June 30, 1995.

CoBank ACB, formerly known as
National Bank for Cooperatives

By Dennis Blick
Its vice President

Guarantors' Consent

The undersigned, Lonnie A. Pilgrim and Patty R. Pilgrim, have executed and delivered a Guaranty Agreement dated as of May 27, 1993 (the "Guaranty") to the Banks. As an additional inducement to and in consideration of the Banks' acceptance of the foregoing Amendment, the undersigned hereby agree with the Banks as follows:

1. Each of the undersigned consents to the execution of the foregoing Amendment by the Company and acknowledges that this consent is not required under the terms of the Guaranty and that the execution hereof by the undersigned shall not be construed to require the Banks to obtain the undersigneds' consent to any future amendment, modification or waiver of any term of the Credit Agreement except as otherwise provided in said Guaranty. Each of the undersigned hereby agrees that the Guaranty shall apply to all indebtedness, obligations and liabilities of the Company to the Banks, the Agent and under the Credit Agreement, as amended pursuant to the foregoing Amendment. Each of the undersigned further agrees that the Guaranty shall be and remain in full force and effect.

2. All terms used herein shall have the same meaning as in the foregoing Amendment, unless otherwise expressly defined herein. Dated as of June 30, 1995.

Lonnie A. Pilgrim

Patty R. Pilgrim

Pilgrim's Pride Corporation

Second Amendment to Secured Credit Agreement and Waiver

Harris Trust and Savings Bank
Chicago, Illinois

FBS Ag Credit, Inc.
Denver, Colorado

Internationale Nederlanden (U.S) Capital Corporation, formerly known
as Internationale Nederlanden Bank N. V. ("ING Bank")
New York, New York

Boatmen's First National Bank of Kansas City
Kansas City, Missouri

First Interstate Bank of Texas, N.A.
Dallas, Texas
Ladies and Gentlemen:

Reference is hereby made to that certain Secured Credit Agreement dated as of May 27, 1993 (the "Credit Agreement") among the undersigned, Pilgrim's Pride Corporation, a Delaware corporation (the "Company"), you (the "Banks") and Harris Trust and Savings Bank, as agent for the Banks (the "Agent"). All defined terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.

The Banks extend a \$75,000,000 revolving credit facility to the Company on the terms and conditions set forth in the Credit Agreement. The Company, the Agent and the Banks now wish to amend the Credit Agreement to permit the Company to pay certain dividends on its capital stock, all on the terms and conditions and in the manner set forth in this Amendment.

1. Amendments.

Upon satisfaction of all of the conditions precedent set forth in Section 3 hereof, the Credit Agreement shall be amended as follows:

1.1. Section 7.9(c) of the Credit Agreement shall be amended to read as follows:

"(c) from the last day of Fiscal Year 1995 and at all times during each Fiscal Year thereafter, an amount in any Fiscal Year equal to the minimum amount required to be maintained during the preceding Fiscal Year plus an amount equal to 75% of the Company's Net Income (but not less than zero) during such Fiscal Year, if the Company's Leverage Ratio for such Fiscal Year is equal to or greater than 0.5 to 1, or 50% of the Company's Net Income (but not less than zero) if the Company's Leverage Ratio for such Fiscal Year is less than 0.5 to 1."

1.2. Section 7.15 of the Credit Agreement shall be amended to read as follows:

".c2.Section 7.15. Dividends and Certain Other Restricted Payments;. The Company will not (a) declare or pay any dividends or make any distribution on any class of its capital stock (other than dividends payable solely in its capital stock) or (b) directly or indirectly purchase, redeem or otherwise acquire or retire any of its capital stock (except out of the proceeds of, or in exchange for, a substantially concurrent issue and sale of capital stock) or (c) make any other distributions with respect to its capital stock; provided, however, that if no Potential Default or Event of Default shall exist before and after giving effect thereto, the Company may pay (i) dividends in an aggregate amount not to exceed \$1,700,000 in any Fiscal Year, and (ii) dividends permitted under Section 7.15(i) during the immediately preceding Fiscal Year that were declared but not paid in the immediately preceding Fiscal Year."

2. Waiver.

Upon satisfaction of the conditions precedent set forth in Section 3 hereof:

2.1. The Banks hereby waive non-compliance by the Company with Section 7.15 of the Credit Agreement resulting from a payment of

dividends on the Company's capital stock in the amount of \$413,839.33 on September 30, 1994.

2.2. The waiver contained in Section 3.1 of this

Amendment

is limited to matters set forth in that Section, and the Company agrees that it remains obligated to comply with the terms of the Credit Agreement and the other Loan Documents, including Section 7.15 of the Credit Agreement, and that the Banks shall not be obligated in the future to waive any provision of the Credit Agreement or the other Loan Documents.

3. Conditions Precedent.

The effectiveness of the Amendment is subject to the satisfaction of all of the following conditions precedent:

3.1. The Company and each of the Banks shall have executed

this Amendment (such execution may be in several counterparts and the several parties hereto may execute on separate counterparts).

3.2. Mr. and Mrs. Lonnie A. Pilgrim shall have executed and delivered to the Banks the Guarantors' Consent in the form set forth below.

3.3. Each of the representations and warranties set forth in Section 5 of the Credit Agreement shall be true and correct.

3.4. The Company shall be in full compliance with all of the terms and conditions of the Credit Agreement and no Event of Default or Potential Default shall have occurred and be continuing thereunder or shall result after giving effect to this Amendment.

3.5. All legal matters incident to the execution and delivery hereof and the instruments and documents contemplated hereby shall be satisfactory to the Banks.

3.6. Harris shall have received a written consent from CoBank with respect to this Amendment.

Section 4. Representations And Warranties.

Section 4.1. The Company, by its execution of this Amendment, hereby represents and warrants the following:

(a) each of the representations and warranties set forth in Section 5 of the Credit Agreement is true and correct as of the date hereof, except that the representations and warranties made under Section 5.3 shall be deemed to refer to the most recent annual report furnished to the Banks by the Company; and

(b) the Company is in full compliance with all of the terms and conditions of the Credit Agreement and no Event of Default or Potential Default has occurred and is continuing thereunder.

5. Miscellaneous.

5.1. The Company has heretofore executed and delivered to the Agent that certain Security Agreement Re: Accounts Receivable, Farm Products and Inventory dated as of May 27, 1993 (the "Security Agreement") and the Company hereby agrees that the Security Agreement shall secure all of the Company's indebtedness, obligations and liabilities to the Agent and the Banks under the Credit Agreement as amended by this Amendment, that notwithstanding the execution and delivery of this Amendment, the Security Agreement shall be and remain in full force and effect and that any rights and remedies of the Agent thereunder, obligations of the Company thereunder and any liens or security interests created or provided for thereunder shall be and remain in full force and effect and shall not be affected, impaired or discharged thereby. Nothing herein contained shall in any manner affect or impair the priority of the liens and security interests created and provided for by the Security Agreement as to the indebtedness which would be secured thereby prior to giving effect to this Amendment.

5.2. Except as specifically amended herein the Credit Agreement and the Notes shall continue in full force and effect in accordance with their original terms. Reference to this specific Amendment need not be made in any note, document, letter, certificate, the Credit Agreement itself, the Notes, or any communication issued or made pursuant to or with respect to the Credit Agreement or the Notes, any reference to the Credit Agreement or Notes being sufficient to refer to the Credit Agreement or the Notes as amended hereby.

5.3. The Company agrees to pay all out-of-pocket costs and expenses incurred by the Agent and Banks in connection with the preparation, execution and delivery of this Amendment and the

documents and transactions contemplated hereby, including the fees and expenses of Messrs. Chapman and Cutler.

5.4. This Amendment may be executed in any number of counterparts, and by the different parties on different counterparts, all of which taken together shall constitute one and the same Agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original.

5.5. (a) This Amendment and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of Illinois, except to the extent provided in Section 5.5(b) hereof and to the extent that the Federal laws of the United States of America may otherwise apply.

(b) Notwithstanding anything in Section 5.5(a) hereof to the contrary, nothing in this Amendment, the Credit Agreement, the Notes, or the Other Loan Documents shall be deemed to constitute a waiver of any rights which the Company, the Agent or any of the Banks may have under the National Bank Act or other applicable Federal law.

Dated as of December 6, 1994.

Pilgrim's Pride Corporation

By Lonnie Bo Pilgrim
Its Chief Executive Officer

Accepted and Agreed to as of the day and year last above written.

Harris Trust And Savings Bank individually and as Agent
By Carl Blackham
Its Vice President

FBS Ag Credit, Inc.
By Douglas Hoffner
Its Vice President

Internationale Nederlanden (U.S.) Capital Corporation, formerly known
as Internationale

Nederlanden Bank N. V.
By Daniel W. Lamprecht
Its Vice President

Boatmen's First National Bank of Kansas City
By Randy Anders
Its Vice President

First Interstate Bank of Texas, N.A.
By Ken Taylor
Its Banking Officer

Guarantors' Consent

The undersigned, Lonnie A. Pilgrim and Patty R. Pilgrim, have executed and delivered a Guaranty Agreement dated as of May 27, 1993 (the "Guaranty") to the Banks. As an additional inducement to and in consideration of the Banks' acceptance of the foregoing Amendment, the undersigned hereby agree with the Banks as follows:

1. Each of the undersigned consents to the execution of the foregoing Amendment by the Company and acknowledges that this consent is not required under the terms of the Guaranty and that the execution hereof by the undersigned shall not be construed to require the Banks to obtain the undersigneds' consent to any future amendment, modification or waiver of any term of the Credit Agreement except as otherwise provided in said Guaranty. Each of the undersigned hereby agrees that the Guaranty shall apply to all indebtedness, obligations and liabilities of the Company to the Banks, the Agent and under the Credit Agreement, as amended pursuant to the foregoing Amendment. Each of the undersigned further agrees that the Guaranty shall be and remain in full force and effect.

2. All terms used herein shall have the same meaning as in the foregoing Amendment, unless otherwise expressly defined herein.

Dated as of December 6, 1994.

Lonnie A. Pilgrim

Patty R. Pilgrim

SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

Dated as of July 31, 1995,

between

PILGRIM'S PRIDE CORPORATION,
as Borrower,

THE BANKS PARTY HERETO, and

CREDITANSTALT-BANKVEREIN,
as Agent

SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Agreement") is made and entered into the as of the 31st day of July, 1995, by and among PILGRIM'S PRIDE CORPORATION, a Delaware corporation (hereinafter referred to as "Borrower"), each of the Banks signatory hereto (hereinafter referred to individually as a "Bank" and collectively as the "Banks"), and CREDITANSTALT-BANKVEREIN, as agent for the Banks (in such capacity, together with its successors and assigns in such capacity, hereinafter referred to as the "Agent");

W I T N E S S E T H:

WHEREAS, Borrower, the Banks and the Agent are parties to that certain Loan and Security Agreement, dated as of June 3, 1993 (the "Original Loan Agreement"), which provided for a term loan (the "Original Facility") in the original principal amount of Twenty-Eight Million Dollars (\$28,000,000.00);

WHEREAS, by that certain Amended and Restated Loan and Security Agreement dated July 29, 1994 (the "Amended and Restated Loan Agreement"), the Borrower, the Banks and the Agent amended and restated the Original Loan Agreement (a) to continue the Original Facility at its then current outstanding balance of \$21,700,000.00; (b) to make a standby/term loan (the "Existing Standby/Term Facility") to borrower to be utilized on or before June 20, 1995 (the "Conversion Date"); and (c) to make certain other changes as more fully set forth herein;

WHEREAS, by letter agreement of the parties dated June 19, 1995, the Amended and Restated Loan Agreement was amended to extend the Conversion Date to September 20, 1995;

WHEREAS, John Hancock Mutual Life Insurance Company, a Massachusetts corporation ("Hancock") or its assignee has heretofore released its Lien on the Mortgaged Property, evidenced by (i) that certain promissory note dated February 1, 1988, executed by the Borrower and payable to Hancock's order in the original principal amount of \$20,000,000, secured by that certain Deed of Trust, Mortgage and Security Agreement dated February 1, 1988, executed by the Borrower for the benefit of Hancock, and recorded in Volume 182, Page 315, aforesaid Records, amended by instruments recorded in Volume 656, page 163, aforesaid Records and Volume 698, page 77, assigned to Agriculture Production Credit Association ("APCA") by instrument recorded at file number 2798, aforesaid Records, and (ii) that certain promissory note dated April 25, 1991, executed by the Borrower and payable to Hancock's order in the original principal amount of \$5,000,000 (collectively the "Hancock Indebtedness"), secured by that certain Deed of Trust, Assignment of Rents and Security Agreement dated April 25, 1991, executed by the Borrower for the benefit of Hancock, and recorded in Volume 656, Page 168, Deed of Trust Records, Titus County, Texas, amended by instrument recorded in Volume 698, page 77, aforesaid Records, assigned to APCA by instrument recorded at

file number 2798, aforesaid Records.

WHEREAS, the Borrower, the Banks and the Agent wish to further amend the Amended and Restated Loan Agreement (a) to continue the Original Facility at its current outstanding balance of \$15,400,000.00; (b) to continue the Existing Standby/Term Facility at its current outstanding balance of \$10,000,000.00; (c) to make an additional standby/term loan to Borrower to be utilized on or before June 20, 1996; and (d) to make certain other changes as more fully set forth herein;

WHEREAS, for the sake of convenience, Borrower, the Banks and the Agent desire to restate in its entirety the Amended and Restated Loan Agreement; and

WHEREAS, this Agreement represents a continuation of the Existing Facility and the Existing Standby/Term Facility, as amended hereby, and not a replacement of the Existing Facility or the Existing Standby/Term Facility;

NOW, THEREFORE, in consideration of the foregoing premises, to induce the Banks to extend the financing provided for herein, and for other good and valuable consideration, the sufficiency and receipt of all of which are acknowledged by Borrower, Borrower, the Banks and Agent agree as follows:

1. DEFINITIONS, TERMS AND REFERENCES

- a. Certain Definitions. When used herein, the following terms shall have the following meanings:

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, owns or controls, on an aggregate basis, including all beneficial ownership and ownership or control as a trustee, guardian or other fiduciary, at least ten percent (10%) of the outstanding shares of capital stock having ordinary voting power to elect a majority of the board of directors (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) of such Person; or which controls, is controlled by or is under common control with such Person. For the purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Second Amended and Restated Loan and Security Agreement, as amended or supplemented from time to time.

"Applicable Law" shall mean all provisions of statutes, rules, regulations and orders of any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality or any court, in each case, whether of the United States or foreign, applicable to a Person, and all orders and decrees of all courts and arbitrators in proceedings or actions in which the Person in question is a party.

"Assignee" shall mean any bank or other entity to which a Bank assigns all or any part of any Loan pursuant to Section 13.4(c) and "Assignees" shall mean, collectively, all banks and other entities to which any Bank assigns all or any part of any Loan pursuant to Section 13.4(c) hereof.

"Bankruptcy Code" shall mean the Bankruptcy Reform Act of 1978, as may be amended from time to time.

"Base Rate" shall mean an interest rate per annum, fluctuating daily, equal to the higher of (a) the rate announced by Creditanstalt from time to time at its principal office in New York, New York, as its prime rate for domestic (United States) commercial loans in effect on such day; and (b) the Federal Funds Rate in effect on such day plus one-half percent (1/2%). (Such Base Rate is not necessarily intended to be the lowest rate of interest charged by Creditanstalt in connection with extensions of credit.) Each change in the Base Rate

shall result in a corresponding change in the interest rate hereunder with respect to a Base Rate Loan and such change shall be effective on the effective date of such change in the Base Rate.

"Base Rate Loan" shall mean a Loan bearing interest at a rate based on the Base Rate.

"Business Day" shall mean any day for dealings by and between banks in U.S. dollar deposits in the interbank Eurodollar market in New York City, New York, and London, England, other than a Saturday, Sunday or any day which shall be in London, England or New York City, New York or Atlanta, Georgia, a legal holiday or a day on which banking institutions are authorized by law to close.

"Capital Lease" shall mean, as to any Person, any lease of (or other agreement conveying the right to use) real and/or personal property which is required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

"Closing Date" shall mean the date that this Agreement has been signed by Borrower, the Banks and the Agent and has become effective in accordance with Section 11 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder from time to time.

"Collateral" shall mean the property of Borrower described in Section 4.1, or any part thereof, as the context shall require, in which Agent has, or is to have, a Lien pursuant thereto, as security for payment of the Obligations.

"Continue", "Continuation" and "Continued" shall refer to the continuation pursuant to Section 3.4 hereof as a Eurodollar Loan from one Interest Period to the next Interest Period.

"Convert", "Conversion" and "Converted" shall refer to a conversion pursuant to Section 3.4 hereof of a Base Rate Loan into a Eurodollar Loan or of a Eurodollar Loan into a Base Rate Loan.

"Creditanstalt" shall mean Creditanstalt-Bankverein, an Austrian banking corporation, and its successors and assigns.

"Current Assets" of any Person shall mean the aggregate amount of assets of such Person which in accordance with GAAP may be property classified as current assets after deducting adequate reserves where proper.

"Current Liabilities" shall mean all items (including taxes accrued as estimated) which in accordance with GAAP may be properly classified as current liabilities, including in any event all current portions of the amounts outstanding from time to time under this Agreement, but excluding any current liability under the Working Capital Credit Agreement.

"Current Ratio" shall mean the ratio of Current Assets to Current Liabilities of the Borrower and its Subsidiaries.

"Deed of Trust" shall mean the Deed of Trust, Assignment of Rents and Security Agreement dated June __, 1993, filed for record June 3, 1993, recorded in Volume 775, page 1, Titus County, Texas Deed Records, executed by Borrower, conveying the Mortgaged Property to secure the repayment of the Loans and performance of the Obligations, and all amendments thereto, recorded or to be recorded in the Titus County, Texas Deed Records.

"Default" shall mean the occurrence of any event or condition which, after satisfaction of any requirement for the giving of notice or the lapse of time, or both, would become an Event of Default.

"Default Rate" shall mean (a) with respect to the unpaid portion of any Loan, an interest rate per annum equal to two percent (2%) above the interest rate set forth for such Loan in Section 3.1(a)

hereof or (b) with respect to any portion of the Obligations other than Loans, two percent (2%) above the rate set forth in Section 3.1(a)(ii) hereof.

"Equipment" shall mean all of Borrower's equipment, as such term is defined in Section 9-109(2) of the UCC, now or hereafter located on or based at the Land, whether now owned or existing or hereafter acquired or manufactured and whether or not subsequently removed from the Land, including, but not limited to, all equipment described in or covered by that certain Appraisal of Broiler Processing and Related Facilities in Mt. Pleasant, Texas, dated as of April 30, 1993, prepared for Borrower by Bob G. Derryberry, ARA, ASA, together with any and all accessories, accessions, parts and appurtenances thereto, replacements thereof and substitutions therefor.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

"ERISA Affiliate" shall mean each trade or business (whether or not incorporated) which, together with Borrower, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

"Eurodollar Loan" shall mean a Loan bearing interest at a rate based on a Quoted Rate.

"Event of Default" shall mean any of the events or conditions described in Article 9 hereof.

"Facility B Term Loans" shall mean, collectively, the loans made pursuant to Section 2.1(c) hereof, and "Facility B Term Loan" shall mean any loan made pursuant to Section 2.1(c) hereof.

"Facility B Term Note" or "Facility B Term Notes" shall have the meanings given to such terms in Section 2.1(c) hereof.

"Federal Funds Rate" shall mean, for any day, the overnight federal funds rate in New York City, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) in the Federal Reserve Statistical Release H.15 (519) or any successor publication, or if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on overnight federal funds transactions in New York City received by Agent from three federal funds brokers of recognized standing selected by Agent.

"Fiscal Year" shall mean, for any year, the 52 or 53 week period ending on the Saturday closest to September 30 of such year, regardless of whether such Saturday occurs in September or October of such year.

"Fixed Charge Coverage Ratio" shall mean, for any fiscal period, the ratio of (a) the sum of (i) net income before income taxes for such fiscal period plus (ii) interest expense for such fiscal period plus (iii) depreciation and amortization for financial reporting purposes for such fiscal period plus (iv) the aggregate amount payable during such fiscal period under Operating Leases to (b) the sum of (i) interest expense for such fiscal period plus (ii) current maturities for long term debt plus (iii) the aggregate amount payable during such fiscal period under Operating Leases, in each case calculated for Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"Funded Debt" shall mean, collectively, (a) the aggregate principal amount of Indebtedness for borrowed money which would, in accordance with GAAP, be classified as long-term debt, together with the current maturities thereof; (b) all Indebtedness outstanding under any revolving credit, line of credit or similar agreement providing for borrowings (and any extensions or renewals thereof), notwithstanding that any such Indebtedness is created within one year of the expiration of such agreement; (c) the principal component of obligations under Capital Lease; and (d) any other Indebtedness bearing interest or carrying a similar payment requirement (including any Indebtedness issued at a discount to its face amount), calculated

in all case for Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"GAAP" shall mean generally accepted accounting principles consistently applied and maintained throughout the period indicated and consistent with the prior financial practice of Borrower and any of its predecessors, as reflected in the financial information referred to in Section 5.11 hereof.

"Indebtedness" shall mean, as applied to any Person at any time, (a) all indebtedness, obligations or other liabilities of such Person (i) for borrowed money or evidenced by debt securities, debentures, acceptances, notes or other similar instruments, and any accrued interest, fees and charges relating thereto; (ii) under profit payment agreements or similar agreement; (iii) with respect to letters of credit issued for such Person's account; (iv) to pay the deferred purchase price of property or services, except unsecured accounts payable and accrued expenses arising in the ordinary course of business; or (v) in respect of Capital Leases; (b) all indebtedness, obligations or other liabilities of such Person or others secured by a Lien on any property of such Person, whether or not such indebtedness, obligations or liabilities are assumed by such Person, all as of such time; (c) all indebtedness, obligations or other liabilities of such Person in respect of any foreign exchange contract, interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge arrangement, net of liabilities owed to such Person by the counterparties thereon; (d) all preferred stock subject (upon the occurrence of any contingency or otherwise) to mandatory redemption; (e) Indebtedness of others guaranteed by such Person.

"Intangible Assets" shall mean license agreements, trademarks, trade names, patents, capitalized research and development, proprietary products (the results of past research and development treated as long term assets and excluded from Inventory) and goodwill (all determined on a consolidated basis in accordance with GAAP).

"Interest Period" shall mean, in connection with any Eurodollar Loan, the period beginning on the date such Eurodollar Loan is made and continuing for one, two, three or six months as selected by Borrower in its notice of Conversion or Continuation. Notwithstanding the foregoing, however, (a) any applicable Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the immediately preceding Business Day, (b) with respect to Eurodollar Loans, any applicable Interest Period which begins on a day for which there is no numerically corresponding day in the calendar month during which such Interest Period is to end shall (subject to clause (a) above) end on the last day of such calendar month, and (c) no Interest Period shall extend beyond any date as would interfere with the repayment obligations of Borrower hereunder.

"Land" shall mean the real estate or interest therein described in Exhibit "A" attached hereto and incorporated herein by this reference, all fixtures or other improvements situated thereon and all rights, titles and interests appurtenant thereto.

"Leases" shall mean any and all leases, subleases, licenses, concessions or other agreements (written or oral, now or hereafter in effect), whether an Operating Lease or a Capital Lease, which grant a possessory interest in and to, together with and all security and other deposits made in connection therewith and all other agreements, such as architect's contracts, engineer's contracts, utility contracts, maintenance agreements and service contracts, which in any way relate to the design, use, occupancy, operation, maintenance, enjoyment or ownership of the Equipment or the Mortgaged Property.

"Leverage Ratio" shall mean, on any date, the ratio of (a) Funded Debt, as of such date, to (b) the sum of (i) Net Worth as of such date, and (ii) Funded Debt, as of such date, in each case computed for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"Lien" means any mortgage, deed of trust, deed to secure debt, pledge, hypothecation, assignment for security, security interest, encumbrance, lien or charge of any kind, whether voluntarily incurred or arising by operation of law, by statute, by contract, or otherwise, affecting any property, including any agreement to grant any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and/or the filing of or agreement to give any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the UCC or comparable law of any jurisdiction with respect to any property.

"Loan" shall mean either a Term Loan, a Standby/Term Loan or a Facility B Term Loan, and "Loans" shall mean, collectively, all Term Loans, Standby/Term Loans and Facility B Term Loans. Loans may be either Eurodollar Loans or Base Rate Loans, each of which is a "type" of Loan.

"Loan Documents" shall mean this Agreement, the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust, the Notes, any financing statements covering portions of the Collateral and any and all other instruments, documents, and agreements now or hereafter executed and/or delivered by Borrower or its Subsidiaries in connection herewith, or any one, more, or all of the foregoing, as the context shall require, and "Loan Document" shall mean any one of the Loan Documents.

"Loan Percentage" shall mean, as to each Bank, that amount, expressed as a percentage, equal to the ratio of the outstanding principal amount of such Bank's Loans to the aggregate outstanding principal amount of the Loans, provided that the Loan Percentage of each Bank shall be increased or decreased, as appropriate, to reflect any assignments made pursuant to Sections 13.4, 13.4(c) hereof.

"Majority Banks" shall mean, at any time, Banks holding at least sixty-seven percent (67%) of the aggregate outstanding principal amount of the Loans.

"Material Adverse Effect" shall mean any event or condition which, alone or when taken with other events or conditions occurring or existing concurrently therewith (a) has or is reasonably expected to have a material adverse effect on the business, operations, condition (financial or otherwise), assets, liabilities, properties or prospects of Borrower or any of its Subsidiaries or of the industry in which Borrower operates; (b) has or is reasonably expected to have any material adverse effect whatsoever on the validity or enforceability of this Agreement, the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust or any other Loan Document; (c) materially impairs or is reasonably expected to materially impair either the ability of Borrower to pay and perform the Obligations; (d) materially impairs or is reasonably expected to materially impair the ability of the Banks to enforce their rights and remedies under this Agreement and the Loan Documents; or (e) has or is reasonably expected to have any material adverse effect on the Collateral, the Liens of the Banks in the Collateral or the priority of such Liens.

"Maturity Date" shall mean June 30, 2000.

"Mortgaged Property" shall mean the Land, Leases, Equipment and all other property (real, personal or mixed) which is conveyed by the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust or any other Loan Document in which a Lien is therein created and all other property (real, personal or mixed) on which a Lien is placed or granted to secure the repayment or the performance of the Obligations.

"MPPAA" shall mean the Multiemployer Pension Plan Amendments Act of 1980, amending Title IV of ERISA.

"Multiemployer Plan" shall have the same meaning as set forth in Section 4001(a)(3) of ERISA.

"Net Worth" shall mean the excess of Borrower's total assets over Total Liabilities, excluding, however, from the definition of assets the amount of (a) any write-up in the book value of any asset resulting from a revaluation thereof subsequent to the later to occur

of (1) the Closing Date and the date Borrower acquired such asset; (b) treasury stock; (c) receivables from Affiliates of Borrower; and (d) unamortized original issue debt discount, all determined on a consolidated basis for Borrower and its Subsidiaries in accordance with GAAP.

"Notes" shall mean, collectively, the Term Notes, the Standby/Term Notes and the Facility B Term Notes.

"Obligations" shall mean the Loans and any and all other indebtedness, liabilities and obligations of Borrower and its Subsidiaries, or any of them, to any Bank of every kind and nature (including, without limitation, interest, charges, expenses, attorneys' fees and other sums chargeable to Borrower by Agent or any Bank and future advances made to or for the benefit of Borrower), arising under this Agreement, the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust or the other Loan Documents, whether direct or indirect, absolute or contingent, primary or secondary, due or to become due, now existing or hereafter acquired.

"Operating Leases" shall mean all leases of (or other agreements, conveying the right to use) real and/or personal property (other than short term leases which are cancelable at any time by the lessee) which are not required to be classified and accounted for as capital leases on a balance sheet under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board) and "Operating Lease" shall mean any one of the Operating Leases.

"Participant" shall mean any bank or other entity to which a Bank sells a participating interest in any Loan or Loans pursuant to Section 13.4(b) hereof and "Participants" shall mean, collectively, all banks or other entities to which any Bank sells a participating interest in any Loan or Loans pursuant to Section 13.4(b) hereof.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established under ERISA.

"Permitted Liens" shall mean: (a) Liens existing on the date hereof with respect to the Mortgaged Property and which the Agent and the Banks permit to be listed on Schedule B of the Title Insurance; (b) Liens in favor of Agent; (c) the interest of lessors under Operating Leases permitted hereunder; (d) Liens for (i) property taxes not delinquent, (ii) taxes not yet due, (iii) pledges or deposits made under Workmen's Compensation, Unemployment Insurance, Social Security and similar legislation, or in connection with appeal or surety bonds incident to litigation, or to secure statutory obligations, and (iv) mechanics' and materialmen's Liens with respect to liabilities which are not yet due or which are being contested in good faith and not listed on Schedule B of the Title Insurance; and (e) purchase money Liens on Equipment; provided, however, that (i) such Lien is created within 120 days of the acquisition of such Equipment; (ii) such Lien attaches only to the specific items of Equipment so acquired; (iii) such Lien secures only the Indebtedness incurred to acquire such Equipment; and (iv) the aggregate principal amount of Indebtedness secured by such Liens does not exceed \$10,000,000 at any one time outstanding.

"Person" shall mean and include any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (whether national, federal, state, county, city, municipal, or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan, program, arrangement, practice or contract, maintained by or on behalf of the Borrower or an ERISA Affiliate, which provides benefits or compensation to or on behalf of employees or former employees, whether formal or informal, whether or not written, including but not limited to the following types of plans:

(i) Executive Arrangements - any bonus, incentive compensation, stock option, deferred compensation, commission,

severance, "golden parachute," "rabbi trust," or other executive compensation plan, program, contract, arrangement or practice ("Executive Arrangements");

(ii) ERISA Plans - any "employee benefit plan", except any Multiemployer Plan, as defined in Section 3(3) of ERISA, whether maintained by or for a single employee or by or for multiple employees, including, but not limited to, any defined benefit pension plan, profit sharing plan, money purchase plan, savings or thrift plan, stock bonus plan, employee stock ownership plan, or any plan, fund, program, arrangement or practice providing for medical (including post-retirement medical), hospitalization, accident, sickness, disability, or life insurance benefits ("ERISA Plans");

(iii) Other Employee Fringe Benefits - any stock purchase, vacation, scholarship, day care, prepaid legal services, severance pay or other fringe benefit plan, program, arrangement, contract or practice ("Fringe Benefit Plans"); and

(iv) Multiemployer Plan - any Multiemployer Plan.

"Quoted Rate" shall mean, when used with respect to an Interest Period for a Eurodollar Loan, the quotient of (i) the offered rate quoted by Agent in the interbank Eurodollar market in New York City, New York or London, England on or about 11:00 a.m. (New York or London time, as the case may be) two Business Days prior to such Interest Period for U.S. dollar deposits of an aggregate amount approximately comparable to the Eurodollar Loan to which the quoted rate is to be applicable and for a period comparable to such Interest Period, divided by (ii) one minus the Reserve Percentage. For purposes of this definition, (a) "Reserve Percentage" shall mean with respect to any Interest Period, the percentage which is in effect on the first day of such Interest Period under Regulation D as the maximum reserve requirement for member banks of the Federal Reserve System in New York City with deposits comparable in amount to those of Agent against Eurocurrency Liabilities. (The Quoted Rate for the applicable period shall be adjusted automatically on and as of the effective date of any change in the applicable Reserve Percentage); and (b) "Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D, as in effect from time to time.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, as it may be amended from time to time.

"Regulatory Change" shall mean, with respect to any Bank, the adoption on or after the date hereof of any applicable federal, state, or foreign law, rule or regulation or any change after such date in any such federal, state or foreign law, rule or regulation (including, without limitation, Regulation D), or any adoption or change in the interpretation or administration thereof by any court, governmental authority, central bank or comparable agency or monetary authority charged with the interpretation or administration thereof, or compliance by such Bank with any request or directive made after such date (whether or not having the force of law) of any such court, authority, central bank or comparable agency or monetary authority.

"Reportable Event" shall have the meaning set forth in Section 4043 of ERISA.

"Second Deed of Trust" shall mean the Deed of Trust, Assignment of Rents and Security Agreement dated July 29, 1994, recorded in Volume 853, Page 75 Titus County, Texas Records, executed by Borrower conveying a second Lien security interest in the Mortgaged Property to secure repayment of the Standby/Term Loans and performance of certain of the Obligations, and all amendments thereto, recorded or to be recorded in the Titus County, Texas Deed Records.

"Standby/Term Loans" shall mean, collectively, the loans made pursuant to Section 2.1(b) hereof, and "Standby/Term Loan" shall mean any loan made pursuant to Section 2.1(b) hereof.

"Standby/Term Note" or "Standby/Term Notes" shall have the

meanings given to such terms in Section 2.1(b) hereof.

"Subordinated Notes" shall mean the \$100,000,000 Pilgrim's Pride Corporation Senior Subordinated Notes Due 2003, issued under the Subordinated Notes Indenture.

"Subordinated Notes Indenture" shall mean that certain Indenture dated as of June 3, 1993, between Borrower, as Issuer, and Texas Commerce Bank, National Association, successor to Ameritrust Texas National Association, as Trustee providing for the issuance of Borrower's Senior Subordinated Notes Due 2003, in an aggregate principal amount not to exceed \$100,000,000.

"Subsidiary" shall mean, as to any Person, any other Person, of which more than fifty percent (50%) of the outstanding shares of capital stock or other ownership interest having ordinary voting power to elect a majority of the board of directors of such corporation or similar governing body of such other Person (irrespective of whether or not at the time stock or other ownership interests of any other class or classes of such other Person shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or by one or more "Subsidiaries" of such Person.

"Tangible Net Worth" shall mean the Net Worth minus the amount of all Intangible Assets of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

"Term Loans" shall mean, collectively, the loans made pursuant to Section 2.1(a) hereof and "Term Loan" shall mean any loan made pursuant to Section 2.1(a) hereof.

"Term Note" and "Term Notes" shall have the meanings given to such terms in Section 2.1(a) hereof.

"Third Deed of Trust" shall mean the Deed of Trust, Assignment of Rents and Security Agreement of even date herewith, executed by Borrower conveying a third Lien security interest in the Mortgaged Property to secure repayment of the Facility B Term Loans and performance of certain of the Obligations, and all amendments thereto, recorded or to be recorded in the Titus County, Texas Deed Records.

"Title Company" shall mean the issuer of the Title Insurance.

"Title Insurance" shall mean the mortgagee's policy(ies) of title insurance, all in form and substance satisfactory to the Agent and Banks and containing no exceptions (printed or otherwise) which are unacceptable to the Agent and Banks, in the full amount(s), securing such interest(s) and issued by a title company (or, if the Agent or the Banks so require, by several title companies on a re-insured or co-insured basis, at the Agent or the Banks' option) acceptable to the Agent and Banks.

"Total Liabilities" shall mean all obligations, indebtedness or other liabilities of any kind or nature, fixed or contingent, due or not due, which, in accordance with GAAP, would be classified as a liability on the balance sheet of Borrower.

"Transferee" shall mean any Participant or Assignee under this Agreement and "Transferees" shall mean all Participants and Assignees under this Agreement.

"UCC" shall mean the Uniform Commercial Code as in effect in the State of New York.

"Working Capital Credit Agreement" shall mean that certain Secured Credit Agreement, dated as of May 27, 1993, among the Borrower, Harris Trust and Savings Bank, individually and as Agent, and the other banks party thereto, as hereafter amended, modified or supplemented from time to time, together with any agreement governing Indebtedness incurred to refinance in its entirety the Indebtedness and commitments then outstanding or permitted to be outstanding under such Working Capital Credit Agreement.

b. Use of Defined Terms. All terms defined in this

Agreement and the Exhibits hereto shall have the same defined meanings when used in any other Loan Document, unless the context shall require otherwise.

- c. Accounting Terms; Calculations. All accounting terms not specifically defined herein shall have the meanings generally attributed to such terms under GAAP. Calculations hereunder shall be made and financial data required hereby shall be prepared, both as to classification of items and as to amounts, in accordance with GAAP, consistently applied (except as otherwise specifically required herein).
- d. Other Terms. All other terms used in this Agreement which are not specifically defined herein but which are defined in the UCC shall have the meanings set forth therein.
- e. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement, and all references in this Agreement to Articles, Sections, Subsections, paragraphs, clauses, subclauses, Exhibits or Schedules shall refer to the corresponding Article, Section, Subsection, paragraph, clause, subclause of, Exhibit or Schedule attached to, this Agreement, unless specific reference is made to the articles, sections or other subdivisions of, Exhibits or Schedules to, another document or instrument.
- f. Exhibits. All Exhibits and Schedules attached hereto are by reference made a part hereof.

2. THE LOANS

- a. Loans.
 - i. Term Loans.
 - (1) The Banks have heretofore made "Term Loans" under, and as such term is defined in, the Original Loan Agreement, to Borrower in the aggregate original principal amount of Twenty-Eight Million Dollars (\$28,000,000.00), continued as the "Term Loans" under the Amended and Restated Loan Agreement. Borrower acknowledges and agrees that the Term Loans outstanding on the date hereof under the Amended and Restated Loan Agreement shall be Term Loans under this Agreement and are hereinafter referred to individually as a "Term Loan" and collectively as the "Term Loans". Contemporaneously with the execution with this Agreement, Borrower has executed amended and restated term notes in the aggregate amount of \$15,400,000.00, the current aggregate outstanding principal balance of the Term Loans, substantially in the form of Exhibit B attached hereto, payable to each Bank in the principal face amount of such Bank's Loan Percentage of the Term Loans (together with any and all amendments, modifications and supplements thereto, and any renewals, replacements or extensions thereof (including, but not limited to, pursuant to Sections 13.4 and 13.4(e) hereof), in whole or in part, individually a "Term Note" and, collectively, the "Term Notes").
 - (2) The aggregate principal amount of the Term Loans shall be repaid in twenty (20) quarterly installments of principal, payable on March 31, June 30, September 30 and December 31 of each year, commencing September

30, 1995, with the first nineteen (10) such quarterly installments being in the amount of Seven Hundred Thousand and No/100 Dollars (\$700,000) each and with the twentieth (20th) and final such quarterly installment being in an amount equal to the then-outstanding aggregate principal amount of the Term Loans, together with all accrued but unpaid interest thereon.

ii. Standby/Term Loans.

(1) The Banks have heretofore agreed to make "Standby/Term Loans" up to the aggregate principal amount of Ten Million Dollars (\$10,000,000.00) under, and as such term is defined in, the Amended and Restated Loan Agreement, to Borrower as requested by Borrower in accordance with the provisions of Section 2.3 thereof, from time to time on and after the date thereof and up to, but not including, September 20, 1995. Borrower acknowledges that the current aggregate outstanding principal balance of the Standby/Term Loans is \$10,000,000.00, the maximum amount of the Commitment (as defined in the Amended and Restated Loan Agreement) which is hereby reduced to zero of the date hereof rather than on September 20, 1995 by agreement of the parties hereto. Borrower acknowledges and agrees that the Standby/Term Loans outstanding on the date hereof under the Amended and Restated Loan Agreement shall be Standby/Term Loans under this Agreement and are hereinafter referred to individually as a "Standby/Term Loan" and collectively as the "Standby/Term Loans"). Contemporaneously with the execution with this Agreement, Borrower has executed amended and restated standby/term notes in the aggregate amount of \$10,000,000.00, the current aggregate outstanding principal balance of the Standby/Term Loans, substantially in the form of Exhibit C-1 attached hereto, payable to each Bank in the principal face amount of such Bank's Loan Percentage of the Standby/Term Loans, (together with any and all amendments, modifications and supplements thereto, and any renewals, replacements or extensions thereof (including, but not limited to, pursuant to Sections 13.4 and 13.4(e) hereof), in whole or in part, individually a "Standby/Term Note" and collectively the "Standby/Term Notes"). Standby/Term Loans, once borrowed and repaid, may not be reborrowed.

(2) The aggregate principal amount of the Standby/Term Loans shall be repaid in twenty (20) quarterly installments of principal, payable on March 31, June 30, September 30 and December 31 of each year, commencing September 30, 1995, with the first nineteen (19) such installments each being in an amount equal to One Hundred Sixty-Seven Thousand and No/100 Dollars (\$167,000.00) and the final such quarterly installment being in an amount equal to the then-outstanding unpaid aggregate principal amount of the Standby/Term Loans, together with all accrued but unpaid interest thereon.

iii. Facility B Term Loans.

(1) Subject to the terms and conditions hereof and provided there exists no Default or Event of Default, each Bank severally agrees to make on the Closing Date loans (each a "Facility B Term Loan" and collectively the "Facility B Term Loans"), as requested by Borrower in accordance with the provisions of Section 2.3 hereof, to Borrower in an aggregate amount of Five Million and No 100 Dollars (\$5,000,000.00). The Facility B Term Loans made by each Bank shall be evidenced by a promissory note, substantially in the form of Exhibit C-2 attached hereto, payable to such

Bank in the principal face amount of such Bank's Loan Percentage of the Facility B Term Loans (together with any and all amendments, modifications and supplements thereto, and any renewals, replacements or extensions thereof (including, but not limited to, pursuant to Sections 13.4 and 13.4(e) hereof), in whole or in part, individually a "Facility B Term Note" and collectively the "Facility B Term Notes"). Facility B Term Loans, once borrowed and repaid, may not be reborrowed.

- (2) The aggregate principal amount of the Facility B Term Loans shall be repayable in sixteen (16) quarterly installments of principal, payable on March 31, June 30, September 30 and December 31 of each year, commencing September 30, 1996, with the first fifteen (15) such installments each being in an amount equal to Eighty Three Thousand Five Hundred and No/100 Dollars (\$83,500.00) and the final such quarterly installment being in an amount equal to the then-outstanding unpaid aggregate principal amount of the Facility B Term Loans, together with all accrued but unpaid interest thereon.
- b. Borrowing Procedures. Borrower shall give the Agent notice of Borrower's request for the funding of the Loans in accordance with Section 2.8 hereof. Not later than 11:00 a.m (New York time), on the date specified for each borrowing hereunder, each Bank shall make available to the Agent the amount of the Loan to be made by such Bank, in immediately available funds at an account with Creditanstalt designated by the Agent. The Agent shall, subject to the terms and conditions of this Agreement, not later than 1:00 p.m. (New York time) on the Business Day specified for such borrowing, make such amount available to Borrower at the Agent's office in New York, New York.
- c. Loan Account; Statements of Account. The Banks will maintain one or more loan accounts for Borrower to which such Bank will charge all amounts advanced to or for the benefit of Borrower hereunder or under any of the other Loan Documents and to which such Bank will credit all amounts collected under each such credit facility from or on behalf of such Borrower. The Banks will account to Borrower periodically with a statement of charges and payments made pursuant to this Agreement, and each such account statement shall be deemed final, binding and conclusive, absent manifest error, unless such Bank is notified by Borrower in writing to the contrary within thirty (30) days of the date of each account statement. Any such notice shall only be deemed an objection to those items specifically objected to therein. The unpaid principal amount of the Loans, the unpaid interest accrued thereon, the interest rate or rates applicable to such unpaid principal amount, and the accrued and unpaid fees, premiums and other amounts due hereunder shall at all times be ascertained from the records of the Banks and such records shall constitute prima facie evidence of the amounts so due and payable.
- d. Use of Proceeds. The proceeds of the Loans shall be used for Borrower's general working capital needs; expenditures incurred under any Capital Leases; acquisitions permitted by Section 7.3 hereof; and in the case of any proceeds of the Standby/Term Loans to repay the Indebtedness under the Subordinated Notes Indenture. No portion of the proceeds of any Loan may be used to "purchase" or "carry" any "margin stock," as such terms are defined in Regulations G, T, U or X of the Board of Governors of the Federal Reserve System, or to extend credit for the purpose of purchasing or carrying margin stocks.

e. Several Obligations of the Banks; Remedies

Independent. The failure of any Bank to make any Loan to be made by it on the date specified therefor shall not relieve any other Bank of its obligation to make its Loan on such date, but neither any Bank nor the Agent shall be responsible for the failure of any other Bank to make a Loan to be made by such other Bank. The amounts payable by the Borrower at any time hereunder and under the Notes to each Bank shall be a separate and independent debt and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Bank or the Agent to consent to, or be joined as an additional party in, any proceeding for such purposes.

f. Payments.

- i. Each payment by the Borrower to Agent pursuant to any of the Notes shall be made prior to 1:00 p.m. (New York time) on the date due and shall be made without set-off or counterclaim to the Agent at the address set forth in Section 13.8 below or at such other place or places as Agent may designate from time to time in writing to Borrower and in such amounts as may be necessary in order that all such payments (after withholding for or on account of any present or future taxes, levies, imposts, duties or other similar charges of whatsoever nature imposed on any Bank by any government or any political subdivision or taxing authority thereof, other than any tax on or measured by the net income of any such Bank pursuant to the income tax laws of the jurisdiction where such Bank's principal or lending office is located) shall not be less than the amounts otherwise specified to be paid under the Notes. Each such payment shall be in lawful currency of the United States of America and in immediately available funds. If the due date of any payment hereunder or under any of the Notes would otherwise fall on a day which is not a Business Day, then such payment shall be due on the next succeeding Business Day and interest shall be payable on the principal amount of such payment for the period of such extension.
 - ii. Except to the extent otherwise provided herein: the funding of the Loans by the Banks under Section 2.1 hereof shall be made by the relevant Banks pro rata according to their respective Loan Percentages; the Conversion and Continuation of Loans of a particular type shall be made pro rata among the relevant Banks according to their Loan Percentage of the Loans and the then current Interest Period for each Eurodollar Loan shall be coterminous; and each payment or prepayment of principal of Loans and each payment of interest by Borrower shall be made for the account of relevant Banks prorata in accordance with their Loan Percentage.
- g. Prepayment.
- i. Upon written notice to the Agent in accordance with Section 2.8, Borrower may, at its option, prepay the Loans, in whole or in part, in integral multiples of \$100,000, on the date specified in such notice, without premium or penalty.
 - ii. All prepayments shall be applied first to the aggregate outstanding principal amount of the Term Loans, so long as any Term Loans are outstanding, and then to the Standby/Term Loans, so long as any Standby/Term Loans are outstanding and then to the Facility B Term Loans.
 - iii. All prepayments of the Loans shall be applied to the principal installments thereof in the inverse order of their maturities.
 - iv. Borrower may not prepay any Loan which is a Eurodollar

Loan prior to the last day of the Interest Period applicable to such Eurodollar Loan unless Borrower pays to the Bank, concurrently with such prepayment, all amounts payable to the Bank pursuant to Sections 3.6 and 3.7 hereof.

- h. Certain Notices. All notices given by Borrower to the Agent of Conversions, Continuations or prepayments of Loans hereunder and the request by Borrower for the funding of the Loans shall either be oral, with prompt written confirmation by telecopy, or in writing, with such written confirmation or writing, in the case of a Conversion or Continuation, to be substantially in the form of Exhibit D attached hereto; shall be irrevocable; shall be effective only if received by Agent prior to 10:00 a.m. (New York time): not later than the date such Loan is to be Converted or Continued as a Base Rate Loan; three (3) Business Days prior to the date such Loan is to be Converted or Continued as a Eurodollar Loan; fifteen (15) days prior to any such prepayment, in the case of a prepayment of any Loans; or four (4) Business Days prior to the date any Loans are to be funded. Each such notice to prepay any Loans shall specify the Loans to be prepaid, the amount of the Loans to be prepaid and the date of such prepayment. Each such notice of Conversion or Continuation shall specify: the amount of such Conversion or Continuation (which shall be an integral multiple of \$100,000 and, if a Eurodollar Loan, shall be in a minimum principal amount of \$1,000,000); whether such Loan will be Converted or Continued as a Eurodollar Loan or as a Base Rate Loan; the date such Loan is to be Converted or Continued (which shall be a Business Day and, if such Loan is to Convert or Continue a Eurodollar Loan then outstanding, shall not be prior to the then current Interest Period for such outstanding Loan); and if such Loan is a Eurodollar Loan, the duration of the Interest Period with respect thereto. The request for the funding of the Loans and each request for a Conversion or Continuation of a Loan or for any other financial accommodation by Borrower pursuant to this Agreement or the other Loan Documents shall constitute (x) an automatic warranty and representation by Borrower to each Bank that there does not then exist a Default or Event of Default or any event or condition which, with the making of such Loan, would constitute a Default or Event of Default and (y) an affirmation that as of the date of said request all of the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct in all material respects, both before and after giving effect to the application of the proceeds of the Loans. If on the last day of the Interest Period of any Eurodollar Loan hereunder, Agent has not received a notice hereunder to Convert, Continue or prepay such Loan, Borrower shall be deemed to have submitted a notice to convert such Loan to a Base Rate Loan, if such Loan was a Eurodollar Loan, or to continue such Loan as a Base Rate Loan, if such Loan was a Base Rate Loan.

3. INTEREST

- a. Interest. Borrower, the Banks and the Agent agree that, effective as of July 31, 1995, the following shall apply:
- i. Subject to modification pursuant to Subsection (b) below and Section 10.1 hereof, the average daily outstanding principal amount of the Loans and all other sums payable by Borrower hereunder shall bear interest from July 31, 1995 until paid in full at the following rates:

- (1) the outstanding principal amount of each Eurodollar Loan shall bear interest at a fixed rate of interest per annum equal to the Quoted Rate for the then-current Interest Period for such Loan plus one and eight-tenths percent (1.8%), calculated daily on the basis of a 360-day year and actual days elapsed;
 - (2) the outstanding principal amount of each Base Rate Loan and all other sums payable by Borrower hereunder shall bear interest at a fluctuating rate per annum equal to the Base Rate plus one-fourth percent (1/4%), calculated daily on the basis of a 360-day year and actual days elapsed; and
 - (3) the outstanding principal amount of any payment on any Loan or other Obligations which is not paid in full when due, together with accrued and unpaid interest thereon (to the extent permitted by law), shall bear interest at the Default Rate.
- ii. Accrued interest shall be payable in the case of Base Rate Loans, monthly on the first day of each month hereafter for the previous month, commencing with the first such day following the date hereof; in the case of a Eurodollar Loan, on the last day of each Interest Period provided, however, that if any Interest Period in respect of a Eurodollar Loan is longer than three (3) months, such interest prior to maturity shall be paid on the last Business Day of each three (3) month interval within such Interest Period as well as on the last day of such Interest Period; in the case of any Loan, upon the payment or prepayment thereof; in the case of any other sum payable hereunder as set forth elsewhere in this Agreement or, if not so set forth, on demand; and in the case of interest payable at the Default Rate, on demand.
- b. Interest Period. The Interest Period for any Eurodollar Loan shall commence on the date such Loan is made as specified in the notice of Conversion or Continuation applicable thereto and shall continue for a period of one (1), two (2), three (3) or six (6) months, in the case of a Eurodollar Loan, as specified in the notice of Conversion or Continuation for such Eurodollar Loan. If Borrower fails to specify the duration of the Interest Period for any Eurodollar Loan in the notice of Conversion or Continuation therefor, such Loan shall instead be Converted to, or Continued as, as the case may be, a Base Rate Loan.
- c. Limitations on Interest Periods. Borrower may not select any Interest Period which extends beyond the first day of any succeeding calendar quarter, unless, giving effect to such Loan, the aggregate outstanding principal amount of Eurodollar Loans having Interest Periods extending beyond the first day of each such calendar quarter is not greater than the aggregate principal amount of the Loans scheduled to be outstanding immediately following such first day of the calendar quarter. Borrower shall not have in effect at any given time during the term of this Agreement more than three (3) different interest rates for Loans (whether Base Rate Loans or Eurodollar Loans).
- d. Conversions and Continuations. Borrower shall have the right, from time to time, to Convert Loans of one type to Loans of the other type and to Continue Loans of one type as Loans of the same type provided that Eurodollar Loans may not be Converted to Base Rate Loans prior to the end of the Interest Period applicable thereto.
- e. Illegality. Notwithstanding any other provision of this Agreement to the contrary, in the event that

it shall become unlawful for any Bank to obtain funds in the London interbank market or for such Bank to maintain a Eurodollar Loan, then such Bank shall promptly notify Borrower whereupon the right of Borrower to request any Eurodollar Loan shall thereupon terminate and any Eurodollar Loan then outstanding shall commence to bear interest at the rate applicable to Base Rate Loans on the last day of the then applicable Interest Period or at such earlier time as may be required by law.

- f. Increased Costs and Reduced Return.
- i. If any Regulatory Change shall:
 - (1) subject any Bank to any tax, duty or other charge with respect to any Eurodollar Loan, or shall change the basis of taxation of payments to such Bank of the principal of or interest on any Eurodollar Loan (except for changes in the rate of tax on the overall net income of such Bank imposed by the jurisdiction in which such Bank's principal office is located); or
 - (2) impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System) against assets of, deposits with or for the account of, or credit extended by, any Bank; or
 - (3) impose on any Bank or on the London interbank market any other condition or expense with respect to this Agreement, the Notes or their making, issuance or maintenance of any Eurodollar Loan;

and the result of any such Regulatory Change is, in such Bank's reasonable judgment, to increase the costs which such Bank determines are attributable to its making or maintaining any Loan, or its obligation to make available any Loan, or to reduce the amount of any sum received or receivable by such Bank under this Agreement or the Notes with respect to any Loan, then, within ten (10) days after demand by such Bank, Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

- ii. In addition to any amounts payable pursuant to subsection (a) above, if any Bank shall have determined that the applicability of any law, rule, regulation or guideline adopted pursuant to or arising out of the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards," or the adoption after the date hereof of any other law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the enforcement or interpretation or administration of any of the foregoing by any court or any governmental authority, central bank or comparable agency charged with the enforcement or interpretation or administration thereof, or compliance by such Bank (or any lending office of such Bank) or such Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of its making or maintaining any Loan or its obligations under this Agreement to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then, upon demand by such Bank, the Borrower shall pay to such Bank from time to time such

additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered. Each demand for compensation pursuant to this paragraph (b) shall be accompanied by a certificate of such Bank in reasonable detail setting forth the computation of such compensation (including the reason therefor), which certificate shall be conclusive, absent manifest error.

- g. Indemnity. Borrower hereby indemnifies and agrees to hold harmless the Agent and each Bank from and against any and all losses or expenses which it may sustain or incur as a consequence of failure by Borrower to consummate any notice of funding, prepayment, Conversion or Continuation made by Borrower, including, without limitation, any such loss or expense arising from interest or fees payable by any Bank to lenders of funds obtained by it in order to maintain any Eurodollar Loan. Borrower hereby further indemnifies and agrees to hold harmless the Agent and each Bank from and against any and all losses or expenses which it may sustain or incur as a consequence of prepayment of any Eurodollar Loan on other than the last day of the Interest Period for such Loan (including, without limitation, any prepayment pursuant to Sections 2.7 and 3.5 hereof). Borrower's obligations under this Section shall survive the termination of this Agreement and the repayment of the Obligations.
- h. Notice of Amounts Payable to Banks. If any Bank shall seek payment of any amounts from Borrower pursuant to Section 3.6 hereof it shall notify Borrower of the amount payable by Borrower to such Bank thereunder. A certificate of such Bank seeking payment pursuant to Section 3.6 hereof, setting forth in reasonable detail the factual basis for and the computation of the amounts specified, shall be conclusive, absent manifest error, as to the amounts owed. Borrower's obligations under this Section shall survive the termination of this Agreement and the repayment of the Obligations.
- i. Inability to Determine Quoted Rate. In the event that Agent determines (which determination shall be conclusive absent manifest error) that, by reason of circumstances affecting the London interbank market, quotation of interest rates for the relevant deposits referred to in the definition of the "Quoted Rate" herein are not being provided in the relevant amounts or for the relevant maturities for the purpose of determining rates of interest for a Eurodollar Loan, Agent will give notice of such determination to Borrower and at least one day prior to the date specified in such notice of Conversion or Continuation for such Loan to be made. If any such notice is given, no Bank shall have any obligation to make available, maintain, Convert or Continue Eurodollar Loans. Until the earlier of the date any such notice has been withdrawn by Agent or the date when Agent and Borrower have mutually agreed upon an alternate method of determining the rates of interest payable on a Eurodollar Loan, as the case may be, Borrower shall not have the right to have or maintain any Eurodollar Loan.
- j. Interest Savings Clause. It is expressly stipulated and agreed to be the intent of Borrower, the Agent and the Banks at all times to comply with applicable law governing the maximum rate or amount of interest payable on the Indebtedness (or applicable United States federal law to the extent that it permits any Bank to contract for, charge, take, reserve or receive a greater amount of interest). If the applicable law is ever judicially interpreted so

as to render usurious any amount called for under this Agreement, the Notes or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the Obligations, or if Agent's exercise of the option to accelerate the maturity of the Notes or if any prepayment by Borrower results in Borrower having paid any interest in excess of that permitted by applicable law, then it is Borrower's, the Agent's and the Banks' express intent that all excess amounts theretofore collected by the Agent and/or the Banks be credited on the principal balance of the Notes (or, if the Notes and all other Obligations have been or would thereby be paid in full, refunded to Borrower), and the provisions of the Notes and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder, not exceeding the highest lawful amount of interest on the Obligations. All sums paid or agreed to be paid to the Agent and/or the Banks for the use, forbearance or detention of the Obligations shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of the Notes until payment in full so that the rate or amount of interest on account of the Obligations does not exceed the usury ceiling from time to time in effect and applicable to the Notes for so long as the Obligations are outstanding. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of the Agent or any Bank to accelerate the maturity or demand payment of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

4. SECURITY INTEREST - COLLATERAL

- a. Security Interest. As security for the Obligations, Borrower hereby grants to Agent, for the benefit of the Banks, a continuing Lien on and security interest in and to the following described property, whether now owned or existing or hereafter acquired or arising or in which Borrower now has or hereafter acquires any rights (sometimes herein collectively referred to as "Collateral"):
 - i. Leases;
 - ii. Equipment;
 - iii. all books and records (including, without limitation, computer programs, print-outs and other computer materials and records) of Borrower pertaining to any of the foregoing; and
 - iv. all accessions to, substitutions for and all replacements, products and proceeds of the foregoing, including, without limitation, proceeds of insurance policies insuring the Collateral.
- b. Mortgaged Property. As additional security for the Obligations, Borrower has heretofore granted to Agent, for the benefit of the Banks, a first (except for prior liens expressly permitted thereby) priority lien on and security interest in the Mortgaged Property, evidenced by the Deed of Trust, and a second (except for prior Liens expressly permitted thereby) priority Lien on and security interest in the Mortgaged Property, evidenced by the Second Deed of Trust, and Borrower has of even date herewith granted

to Agent, for the benefit of the Banks, a third (except for prior Liens expressly permitted thereby) priority Lien on and security interest in the Mortgaged Property, evidenced by the Third Deed of Trust, recorded or to be recorded in the Titus County, Texas Deed Records.

- c. Perfection of Liens. Until the payment and satisfaction in full of all Obligations, Agent's Liens in the Collateral and all products and proceeds thereof, shall continue in full force and effect. Borrower shall perform any and all steps requested by Agent or the Majority Banks to perfect, maintain and protect Agent's Liens in the Collateral including, without limitation, executing and filing financing or continuation statements, or amendments thereof, in form and substance satisfactory to Agent. Agent may file one or more financing statements disclosing Agent's Liens under this Agreement without Borrower's signature appearing thereon and Borrower shall pay the costs of, or incidental to, any recording or filing of any financing statements concerning the Collateral. Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.
- d. Right to Inspect. Agent and each Bank (or any person or persons designated by it), in its sole discretion, shall have the right to call at the Mortgaged Property or any place of business or property location of Borrower at any reasonable time, and, without hindrance or delay, to inspect the Collateral and to inspect, review, check and make extracts from Borrower's books, records, journals, orders, receipts and any correspondence and other data relating to the Collateral, to Borrower's business or to any other transactions between the parties hereto and to discuss any of the foregoing with any of Borrower's employees, officers and directors and with its independent accountants.

5. REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to enter into this Agreement and to make Loans hereunder, Borrower hereby makes the following representations and warranties to the Agent and the Banks which shall be true and correct on the date hereof and shall continue to be true and correct at the time of the making of any Loan and until the Loans have been repaid in full:

- a. Corporate Existence and Qualification. Each of Borrower and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Borrower is duly qualified as a foreign corporation in good standing in the State of Texas and in each other state wherein the conduct of its business or the ownership of its property requires such qualification and each Subsidiary is duly qualified as a foreign corporation in good standing in each state wherein the conduct of its business or the ownership of its property requires such qualification.
- b. Chief Executive Office; Collateral Locations. Borrower's and each Subsidiary's principal place of business, chief executive office and office where it keeps all of its books and records is located at 110 South Texas Street, Pittsburg, Texas 75686, and except as set forth on Schedule 5.2 attached hereto neither Borrower nor any of its respective predecessors has had any other chief executive office or principal place of business outside the State of Texas during the preceding four (4) months. Schedule 5.2 attached

hereto and incorporated herein by reference sets forth a true, correct and complete list of all places of business and all locations at which Collateral is located.

- c. Corporate Authority. Borrower has the corporate power and authority to execute, deliver and perform under this Agreement and the Loan Documents to which it is a party, and to borrow hereunder, and has taken all necessary and appropriate corporate action to authorize the execution, delivery and performance of this Agreement and such Loan Documents.
- d. No Consents; Validity and Binding Effect. The execution, delivery and performance of this Agreement, the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust and the other Loan Documents are not in contravention of any provisions of law or any agreement or indenture by which Borrower is bound or of the Articles of Incorporation or By-laws of Borrower or any of its Subsidiaries and do not require the consent or approval of any governmental body, agency, authority or other Person which has not been obtained and a copy thereof furnished to Agent. This Agreement and the other Loan Documents to which Borrower is a party constitute the valid and legally binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms.
- e. No Material Litigation. Except as set forth on Schedule 5.5 hereof, there are no proceedings pending or threatened before any court or administrative agency which might have a Material Adverse Effect.
- f. Corporate Organization. The Articles of Incorporation and By-laws of Borrower and each of its Subsidiaries are in full force and effect under the laws of their respective states of incorporation and all amendments to said Articles of Incorporation and By-laws have been duly and properly made under and in accordance with all applicable laws.
- g. Solvency. Giving effect to the execution and delivery of the Loan Documents and the consummation of the transactions contemplated hereby, including, but not limited to, the making and/or continuing, as the case may be, of the Loans hereunder, the issuance of the Subordinated Notes and the making of the initial loans under the Working Capital Credit Agreement, Borrower (a) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage, (b) is able to pay its debts as they mature and (c) owns property whose fair saleable value is greater than the amount required to pay its debts.
- h. Adequacy of Intangible Assets. Borrower and its Subsidiaries possess all Intangible Assets reasonably necessary to continue to conduct their respective businesses as heretofore conducted by them.
- i. Taxes. Borrower and each of its Subsidiaries has filed all federal, state, local and foreign tax returns, reports and estimates which are required to be filed, and all taxes (including penalties and interest, if any) shown on such returns, reports and estimates which are due and not yet delinquent or which are otherwise due and payable have been fully paid. Such tax returns properly and correctly reflect the income and taxes of Borrower and its Subsidiaries for the periods covered thereby except for such amounts which in the aggregate are immaterial.
- j. ERISA. Except as disclosed on Schedule 5.10 attached hereto and incorporated herein by reference:

- i. Identification of Plans. Neither the Borrower, any of its Subsidiaries nor any ERISA Affiliate maintains or contributes to, or has maintained or contributed to, any Plan or Multiemployer Plan that is subject to regulation by Title IV of ERISA;
 - ii. Compliance. Each Plan has at all times been maintained, by its terms and in operation, in accordance with all applicable laws, except for such noncompliance (when taken as a whole) that will not have a Material Adverse Effect on Borrower or any of its Subsidiaries;
 - iii. Liabilities. Neither the Borrower, any of its Subsidiaries nor any ERISA Affiliate is currently or to the best knowledge of Borrower or any ERISA Affiliate will become subject to any liability (including withdrawal liability), tax or penalty whatsoever to any person whomsoever with respect to any Plan including, but not limited to, any tax, penalty or liability arising under Title I or Title IV of ERISA or Chapter 43 of the Code;
 - iv. Funding. The Borrower, its Subsidiaries and each ERISA Affiliate have made full and timely payment of all amounts required to be contributed under the terms of each Plan and applicable law and all material amounts required to be paid as expenses of each Plan. No Plan has any "amount of unfunded benefit liabilities" (as defined in Section 4001(a)(18) of ERISA); and
 - v. Insolvency; Reorganization. No Plan is insolvent (within the meaning of Section 4245 of ERISA) or in reorganization (within the meaning of Section 4241 of ERISA).
- k. Financial Information.

(a) The consolidated financial statements of Borrower and its Subsidiaries for fiscal year ended October 1, 1994 disclosed in the Borrower's Form 10-K certified by Ernst & Young, and the consolidated interim financial statements of Borrower and its Subsidiaries for the six-month period ended April 1, 1995, each consisting of a consolidated balance sheet, consolidated statement of income (loss), consolidated statement of changes in stockholders equity and consolidated statement of cash flows, copies of which have been delivered by Borrower to each Bank, are true and correct in all material respects and contain no material misstatement or omission, and fairly present the consolidated financial position, assets and liabilities of Borrower and its Subsidiaries as of the date thereof and the consolidated results of operations of Borrower and its Subsidiaries for the period then ended, and as of the date thereof there are no liabilities of Borrower or any of its Subsidiaries, fixed or contingent, which are material that are not reflected in such financial statements.

(b) Since the date of the financial statements referred to in subsection (a), there has been no material adverse change in the assets, liabilities, financial position or results of operations of Borrower or any of its Subsidiaries, and neither Borrower nor any of its Subsidiaries has (i) incurred any obligation or liability, fixed or contingent, which would have a Material Adverse Effect, (ii) incurred any Indebtedness or obligations under Capital Leases, other than the Obligations, and trade payables and other liabilities arising in the ordinary course of the Borrower's or such Subsidiary's business, or (iii) guaranteed the obligations of any other Person.

1. Title to Assets. Borrower has good and marketable title to and ownership of the Collateral, including, but not limited to, the Mortgaged Property, and Borrower and its Subsidiaries have good and marketable title to and ownership of all of their other assets, free and clear of all Liens except for Permitted Liens or as otherwise expressly permitted by this Agreement.

- m. Violations of Law. Neither Borrower nor any of its Subsidiaries is in violation of any applicable statute, regulation or ordinance of any governmental entity, or of any agency thereof, which violation could have a Material Adverse Effect.
- n. No Default. Neither Borrower nor any of its Subsidiaries is in default with respect to (a) any note, indenture, loan agreement, mortgage, lease, deed or other similar agreement relating to Indebtedness to which Borrower or such Subsidiary is a party or by which Borrower or such Subsidiary is bound or (b) any other instrument, document or agreement to which Borrower or such Subsidiary is a party or by which Borrower or such Subsidiary or any of their respective properties are bound, which other instrument, document or agreement is material to the operations or condition, financial or otherwise, of Borrower or such Subsidiary.
- o. Corporate and Trade or Fictitious Names. During the five (5) years immediately preceding the date of this Agreement, neither Borrower nor any of its Subsidiaries nor any of their respective predecessors has been known as or used any corporate, trade or fictitious name other than its current corporate name and except as disclosed on Schedule 5.15 hereto.
- p. Equipment. The Equipment is and shall remain in good condition, normal wear and tear excepted, meets all standards imposed by any governmental agency, or department or division thereof having regulatory authority over such material and its use and is currently usable in the normal course of Borrower's business.
- q. Investments. Except as set forth in Schedule 5.17 hereof, Borrower has no Subsidiaries and has no interest in any partnership or joint venture with, or any investment in, any Person.
- r. Trade Relations. There exists no actual or, to the best of Borrower's knowledge, threatened termination, cancellation or limitation of, or any modification or change in, the business relationship of Borrower with any material supplier or with any company whose contracts with Borrower individually or in the aggregate are material to the operations of Borrower; after the consummation of the transactions contemplated by this Agreement, the Subordinated Notes Indenture and the Working Capital Credit Agreement, to the best knowledge of Borrower, all such companies and suppliers will continue a business relationship with Borrower on a basis materially no less favorable to Borrower than that heretofore conducted; and there exists no condition or state of facts or circumstances which would have a Material Adverse Effect on Borrower or prevent Borrower from conducting its business after the consummation of the transactions contemplated by this Agreement in essentially the same manner in which it has heretofore been conducted by Borrower.
- s. Broker's or Finder's Fees. No broker's or finder's fees or commissions have been incurred or will be payable by Borrower or any of its Subsidiaries, or any of its predecessors, to any Person in connection with the transactions contemplated by this Agreement. Notwithstanding the foregoing, Borrower acknowledges that MONY Capital Markets, Inc. has been paid that certain broker's commission contemplated in the Original Loan Agreement.
- t. Security Interest. This Agreement creates a valid

security interest in the Collateral securing payment of the Obligations, subject only to Permitted Liens, and all filings and other actions necessary or desirable to perfect and protect such security interest have been taken, and, Agent has a valid and perfected first priority security interest in the Collateral, subject only to Permitted Liens.

- u. Regulatory Matters. Borrower is not subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Federal Power Act, the Interstate Commerce Act or any other federal or state statute or regulation which materially limits its ability to incur indebtedness or its ability to consummate the transactions contemplated hereby.
- v. Disclosure. Neither this Agreement nor any other instrument, document, agreement, financial statement or certificate furnished to the Agent or any of the Banks by or on behalf of Borrower in connection with this Agreement or the Working Capital Credit Agreement contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or omits to state any fact which, insofar as Borrower can now foresee, may in the future materially and adversely affect the condition (financial or otherwise), business, operations or properties of Borrower and its Subsidiaries which has not been set forth in this Agreement or in an instrument, document, agreement, financial statement or certificate furnished to the Agent and the Banks in connection herewith.
- i. Registration Statement. Borrower has heretofore furnished to the Agent and each Bank a true, correct and complete copy, including all amendments thereto, of the Registration Statement, on Form S-1, in respect to the Subordinated Notes and all other materials filed with the Securities and Exchange Commission in connection with the issuance of the Subordinated Notes. No portion of the Registration Statement, the prospectus relating thereto, nor any other written material filed with the Securities and Exchange Commission with respect thereto, relating to the Borrower or its Subsidiaries or their respective businesses, does or will contain any statement which is false or misleading with respect to any material fact, or does or will omit to state a material fact necessary in order to make the statements therein not false or misleading, or otherwise violate any state or federal securities laws.

6. AFFIRMATIVE COVENANTS

Borrower covenants to the Agent and the Banks that from and after the date hereof, and until the satisfaction in full of the Obligations, it will and it shall cause each of its Subsidiaries to, unless the Majority Banks otherwise consent in writing:

- a. Records Respecting Collateral. Keep all records with respect to the Collateral at its office set forth in Section 5.2 hereof and not remove such records from such address without the prior written consent of the Majority Banks.
- b. Reporting Requirements. Furnish or cause to be furnished to the Agent and each Bank:
 - i. As soon as practicable, and in any event within 45 days after the end of each fiscal quarter, consolidated interim unaudited financial statements, including a balance sheet, income statement and statement of cash flow, for the quarter and year-to-date period then ended, prepared in accordance with GAAP, consistent with the past

practice or Borrower and its Subsidiaries, and certified as to truth and accuracy thereof by the chief financial officer of Borrower;

- ii. As soon as available, and in any event within 90 days after the end of each fiscal year, consolidated audited annual financial statements, including a consolidated balance sheet, consolidated statement of income, consolidated statement of shareholders' equity and consolidated statement of cash flow for the fiscal year then ended, prepared in accordance with GAAP, in comparative form and accompanied by the unqualified opinion of a nationally recognized firm of independent certified public accountants regularly retained by Borrower and its Subsidiaries and acceptable to the Majority Banks;
 - iii. Together with the annual financial statements referred to in clause (b) above, a statement from such independent certified public accountants that, in making their examination of such financial statements, they obtained no knowledge of any Default or Event of Default or, in lieu thereof, a statement specifying the nature and period of existence of any such Default or Event of Default disclosed by their examination;
 - iv. Together with the annual or interim financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer of Borrower certifying that, to the best of his knowledge, no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto;
 - v. Promptly after the sending or filing thereof, as the case may be, copies of any definitive proxy statements, financial statements or reports which Borrower or any Subsidiary sends to its shareholders and copies of any regular periodic and special reports or registration statements which Borrower or any Subsidiary files with the Securities and Exchange Commission (or any governmental agency substituted therefor), including, but not limited to, all Form 10-K and Form 10-Q reports, or any report or registration statement which Borrower or any Subsidiary files with any national securities exchange;
 - vi. At least fifteen (15) Business Days prior to the time any consent by the Majority Banks will be necessary, Borrower and any Subsidiary shall furnish to the Agent and the Banks all pertinent information regarding any proposed acquisition by Borrower or any Subsidiary to which the consent of the Majority Banks is required hereunder which is reasonably necessary or appropriate to permit the Banks to evaluate such acquisitions in a manner consistent with prudent banking standards;
 - vii. Together with the annual and, if requested by the Agent, interim financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer of Borrower certifying as to the items of Equipment subject to purchase money Liens permitted by clause (e) of the definition of "Permitted Liens" and the principal amount of Indebtedness secured by each such Lien; and
 - viii. Such other information respecting the condition or operations, financial or otherwise, of Borrower and its Subsidiaries as the Agent or the Banks may from time to time reasonably request.
- c. Tax Returns. File all federal, state and local tax returns and other reports that Borrower and its Subsidiaries are required by law to file, maintain

adequate reserves for the payment of all taxes, assessments, governmental charges and levies imposed upon them, their respective incomes, or their respective profits, or upon any property belonging to them, and pay and discharge all such taxes, assessments, governmental charges and levies prior to the date on which penalties attach thereto.

- d. Compliance With Laws. Comply with all laws, statutes, rules, regulations and ordinances of any governmental entity, or of any agency thereof, applicable to Borrower or any Subsidiary, a violation of which, in any respect, might have a Material Adverse Effect, including, without limitation, any such laws, statutes, rules, regulations or ordinances regarding the collection, payment, and deposit of employees' income, unemployment, and Social Security taxes and with respect to pension liabilities.
- e. ERISA.
 - i. At all times make prompt payment of contributions required to meet the minimum funding standards set forth in Section 302 and 305 of ERISA with respect to each Plan and otherwise comply with ERISA and all rules and regulations promulgated thereunder in all material respects;
 - ii. Promptly after the occurrence thereof with respect to any Plan, or any trust established thereunder, notify the Agent and the Banks of (i) a "reportable event" described in Section 4043 of ERISA and the regulations issued from time to time thereunder (other than a "reportable event" not subject to the provisions for 30-day notice to the PBGC under such regulations), or (ii) any other event which could subject the Borrower, any of its Subsidiaries or any ERISA Affiliate to any tax, penalty or liability under Title I or Title IV of ERISA or Chapter 43 of the Code which, in the aggregate, would have a Material Adverse Effect on the Borrower, any of its Subsidiaries or upon their respective financial condition, assets, business operations, liabilities or property;
 - iii. At the same time and in the same manner as such notice must be provided to the PBGC, or to a Plan participant, beneficiary or alternative payee, give the Agent and the Banks any notice required under Section 101(d), 302(f)(4), 303, 307, 4041(b)(1)(A) or 4041(c)(1)(A) or ERISA or under Section 401(a)(29) or 412 of the Code with respect to any Plan;
 - iv. Furnish to the Agent or any Bank, promptly upon the request of the Agent or such Bank, (i) true and complete copies of any and all documents, government reports and determination or opinion letters for any Plan; and (ii) a current statement of withdrawal liability, if any, for each Multiemployer Plan; and
 - v. Furnish to the Agent or any Bank, promptly upon the request of the Agent or such Bank therefor, such additional information concerning any Plan that relates to the ability of Borrower to make any payments hereunder, as may be reasonably requested.
 - f. Books and Records. Keep adequate records and books of account with respect to its business activities in which proper entries are made in accordance with GAAP reflecting all its financial transactions.
 - g. Notifications to the Agent and the Banks. Notify the Agent and the Banks by telephone within ten (10) Business Days (with each such notice to be confirmed in writing within twelve (12) Business Days following such telephone notice): upon Borrower's learning

thereof, of any litigation affecting Borrower or any of its Subsidiaries claiming damages of \$5,000,000 or more, individually or when aggregated with other litigation pending against Borrower or any of its Subsidiaries, whether or not covered by insurance, and of the threat or institution of any suit or administrative proceeding against Borrower or any of its Subsidiaries which may have a Material Adverse Effect on Borrower or any of its Subsidiaries, or Agent's Lien in the Collateral or the Mortgaged Property, and establish such reasonable reserves with respect thereto as the Majority Banks may request; upon learning thereof, of any Default or Event of Default hereunder; upon occurrence thereof, of any change to the operations, financial condition or business of Borrower or any of its Subsidiaries which would have a Material Adverse Effect; upon the occurrence thereof, of any amendment or modification of the Working Capital Credit Agreement; and upon the occurrence thereof, of Borrower's or any Subsidiary's default under (i) any note, indenture, loan agreement, mortgage, lease, deed or other similar agreement relating to any indebtedness of Borrower or any of its Subsidiaries or (ii) any other instrument, document or agreement material to the operations or condition, financial or otherwise, of Borrower or any of its Subsidiaries to which Borrower or any of its Subsidiaries is a party or by which Borrower or any of its Subsidiaries or any of their respective property is bound.

h. Insurance.

- i. Keep all of the Collateral, whether now owned or hereafter acquired, insured by insurance companies (i) reasonably acceptable to the Majority Banks or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the State of Texas against loss or damage by fire or other risk usually insured against under extended coverage endorsement and theft, burglary, and pilferage, together with such other hazards as the Majority Banks may from time to time reasonably request, in amounts reasonably satisfactory to the Majority Banks and naming Agent as loss payee thereon pursuant to a lender's loss payee clause satisfactory to the Majority Banks;
- ii. Keep all of its property other than the Collateral and the Mortgaged Property, whether now owned or hereafter acquired, insured by insurance companies (i) reasonably acceptable to the Majority Banks or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the State of Texas and in all jurisdictions in which such Borrower does business against such risks and in such amounts as are customarily maintained by others in similar businesses;
- iii. Maintain at all times liability insurance coverage against such risks and in such amounts as are customarily maintained by others in similar businesses, such insurance to be carried by insurance companies (i) reasonably acceptable to the Majority Banks or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the State of Texas and in all jurisdictions in which such Borrower does business; and
- iv. Deliver certificates of insurance for such policy or policies to Agent, containing endorsements, in form satisfactory to the Majority Banks, providing that the insurance shall not be cancelable, except upon thirty (30) days' prior written notice to Agent.

i. Preservation of Corporate Existence. Except as

permitted by Section 7.4 hereof, preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation.

j. Equipment. Keep and maintain the Equipment in good operating condition, reasonable wear and tear excepted, shall repair and make all necessary replacements thereof so that the operating efficiency thereof shall at all times be maintained and preserved and, shall not permit any item of Equipment to become a fixture to real estate or accession to other personal property unless Agent has a first priority Lien on or in such real estate or other personal property. Borrower shall, immediately on demand therefor by Agent, deliver to Agent any and all evidence of ownership of any of the Equipment (including, without limitation, certificates of title and applications for title, together with any necessary applications to have Agent's lien noted thereon, in the case of vehicles).

k. Additional Collateral. Intentionally deleted.

7. NEGATIVE COVENANTS

Borrower covenants with the Agent and the Banks that from and after the date hereof and until the termination of this Agreement and the payment and satisfaction in full of the Obligations, it will not, and it will not permit its Subsidiaries to, without the prior written consent of the Majority Banks:

a. No Encumbrances. Create, assume, or suffer to exist any Lien of any kind in any of the Collateral or the Mortgaged Property except for Permitted Liens and a Lien on the Equipment and the Mortgaged Property, expressly subordinated to the Lien in favor of the Agent, in favor of the agent under the Working Capital Credit Agreement (the "Working Capital Agent"), as security for the Obligations under the Working Capital Credit Agreement; provided, however, that concurrently with the granting of such Lien in favor of the Working Capital Agent, Borrower grants to the Agent, as security for the Obligations, a Lien, subordinate only to the Lien of the Working Capital Agent, in the current assets of Borrower as provided for in Section 6.11 hereof.

b. Asset Sales.

i. Sell, lease or dispose of any of the Collateral or any interest therein except for the sale of Equipment no longer used or useful in the business of Borrower or any Subsidiary having an aggregate value not in excess of \$1,000,000 during any Fiscal Year or an aggregate value not in excess of \$5,000,000 during any Fiscal Year; provided that any Equipment sold, leased or otherwise disposed of pursuant to this clause (ii) is replaced within 90 days after such sale, trade-in or other disposition by replacement Equipment which is in good operating condition and which has a value and utility at least equal to that of the Equipment sold, traded in or disposed of and the Agent receives, for the benefit of the Banks, a valid perfected first Lien with respect to such replacement Equipment, subject only to Permitted Liens; or

ii. Sell, lease or otherwise transfer any of its assets other than the Collateral except: in the ordinary course of business; as permitted by Section 7.9; transfers to the Borrower or a Subsidiary; worn or obsolete property; or any other sale or transfer of assets, which, together with all other assets sold or transferred during the preceding 12 month period (other than in accordance with the preceding clauses (i), (ii), (iii) or (iv)), does not exceed 15% of the Borrower's total consolidated tangible

assets as computed at the time of such sale or transfer.

- c. Loans and Investments. Make or retain any loan or investment (whether through the purchase of stock, obligations or otherwise) in or make any loan or advance to, any other Person, whether by acquisition of stock indebtedness, other obligations or security or by loan, advance, capital contribution, or otherwise ("Restricted Investments") other than:
- i. investments in certificates of deposit having a maturity of one year or less issued by any United States commercial bank having capital and surplus of not less than \$50,000,000;
 - ii. investments in an aggregate amount of up to \$8,000,000 in deposits maintained with the First State Bank of Pittsburg, Texas;
 - iii. investments in commercial paper rated P1 by Moody's Investors Service, Inc. or A1 by Standard & Poor's Corporation maturing within 180 days of the date of issuance thereof;
 - iv. investments in mutual funds composed of either money market securities or marketable obligations of the United States or guaranteed by or insured by the United States, or those for which the full faith and credit of the United States is pledged for the repayment or principal and interest thereof; provided that such obligations have a final maturity of no more than three years from the date acquired by the Borrower;
 - v. investments existing prior to the Closing Date; and
 - vi. investments in a corporate Subsidiary of the Borrower provided that such Subsidiary is consolidated with Borrower for financial reporting purposes;

unless, immediately after giving effect thereto, the aggregate Restricted Investments of the Borrower and its Subsidiaries made since the Closing Date does not exceed 5% of the Borrower's total assets.

- d. Corporate Structure. Dissolve or otherwise terminate its corporate status; enter into any merger, reorganization or consolidation; issue any shares of any class of capital stock of any Subsidiary or any securities or other instruments for or which are convertible into any shares of any class of capital stock of any Subsidiary; or make any substantial change in the basic type of business conducted by Borrower or any Subsidiary as of the date hereof, provided that the Borrower may merge with another corporation, if the surviving corporation is the Borrower and a Subsidiary may merge or consolidate with or sell, lease or otherwise transfer all or substantially all of its assets to: the Borrower or another Subsidiary; or, another Person if immediately after giving effect to the transaction no Default or Event of Default would exist.
- e. Fiscal Year. Change its fiscal year.
- f. ERISA. Take, or fail to take, or permit any ERISA Affiliate to take, or fail to take, any action with respect to a Plan including, but not limited to, establishing any Plan, amending any Plan, terminating or withdrawing from any Plan, or incurring an amount of unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA, where such action or failure could have a material adverse effect on the Borrower or any Subsidiary, result in a lien on the property of the Borrower or any Subsidiary, or require the Borrower or any Subsidiary to provide any security.

- g. Relocations; Use of Name. Relocate its executive office; maintain any Collateral at any location other than the Mortgaged Property or maintain records with respect to Collateral at any locations other than the Mortgaged Property or at the location of its chief executive office set forth in Section 5.2 hereto; or use any corporate name (other than its own) or any fictitious name except upon thirty (30) days prior written notice to Agent and after the delivery to Agent of financing statements, if required by Agent, in form satisfactory to Agent.
- h. Arm's-Length Transactions. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction, including without limitation, the purchase, sale, lease or exchange of any Collateral, or the rendering of any service, with any Affiliate of the Borrower or such Subsidiary or any Person except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms not materially less favorable to the Borrower than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate of the Company or such Subsidiary and which would be subject to approval by the Borrower's Audit Committee of the Board of Directors.
- i. Dividends. Declare or pay any dividends on, or make any distribution with respect to, its shares of any class of capital stock, redeem or retire any capital stock, or take any action having an effect equivalent to the foregoing (in any fiscal year of Borrower or any Subsidiary) except for the declaration and payment of cash dividends by a Subsidiary and payable to Borrower and the declaration and payment of cash dividends on the capital stock of the Borrower not in excess of \$0.08 per share of the issued and authorized common stock plus twenty-five percent (25%) of the net income of Borrower, as set forth in the audited financial statements for the fiscal year of Borrower immediately preceding the year during which such declaration and payment of dividends is made; provided, however, that at the time such dividend is paid there does not exist any Default or Event of Default hereunder or any event or condition which, with the payment of such dividend would constitute a Default or Event of Default.
- j. Subordinated Notes. Neither the Borrower or any of its Subsidiaries shall, directly or indirectly:
 - i. purchase, redeem, retire or otherwise acquire for value, set apart any money for a sinking, defeasance or other analogous fund for, the purchase, redemption, retirement or other acquisition of, or make any voluntary payment or prepayment of the principal of or interest on, where any other amount owing in respect of, the Subordinated Notes other than regularly scheduled payments of interest thereon; or
 - ii. agree to any amendment, modification or waiver of any of the provisions of the Subordinated Notes Indenture.
- k. Guaranty Fees. The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, pay to Mr. and/or Mrs. Lonnie A. Pilgrim or any other guarantor of any of the Borrower's Indebtedness, obligations and liabilities, any fee or other compensation, but excluding salary, bonus and other compensation for services rendered as an employee (collectively the "Guaranty Fees") except that, so long as there is not Default or Event of Default nor any event or condition which, with the payment of such

fee would constitute a Default or Event of Default, Borrower may pay Guarantee Fees not to exceed \$2,000,000 in the aggregate during any fiscal year of the Borrower.

8. FINANCIAL COVENANTS

Borrower covenants with the Agent and the Banks that from and after the date hereof and until the termination of this Agreement and the payment and satisfaction in full of the Obligations, unless the Majority Banks otherwise consent in writing:

- a. Leverage Ratio. The Borrower will not permit the ratio of its Leverage Ratio at any time during each period specified below to exceed the ratio specified below for such period:

PERIOD	MAXIMUM RATIO
Closing Date through the penultimate day of Fiscal Year 1995	0.675:1.000
At all times thereafter	0.650:1.000

- b. Tangible Net Worth. The Borrower shall maintain a Tangible Net Worth at all times during each period specified below of not less than the amount specified below for such period:

- i. Closing Date through the penultimate day of Fiscal Year 1995, \$100,000,000, plus 25% of Borrower's consolidated net income (but not less than zero) for Borrower's Fiscal Year 1995; and
- ii. For the successive periods commencing on the last day of each Fiscal Year thereafter and ending on the penultimate day of next succeeding Fiscal Year, with the first such period commencing on the last day of Fiscal Year 1996, an amount equal to the minimum required Tangible Net Worth in effect under this Section 8.2 during the immediately preceding period plus 25% of Borrower's consolidated net income (but not less than zero) for Borrower's Fiscal Year ending on the date the applicable period commences.

- c. Current Ratio. The Borrower will maintain at all times during each period specified below and measured as of the last day of each fiscal year a Current Ratio of not less than the amount specified below for such period:

PERIOD	CURRENT RATIO
Closing Date through the last day of Fiscal Year 1998	1.15 to 1.00
At all times thereafter	1.20 to 1.00

- d. Fixed Charge Coverage Ratio. The Borrower will not permit its Fixed Charge Coverage Ratio to be less than 1.35 to 1.00 as of the last day of each fiscal period specified below:

- i. the eight fiscal quarters of Borrower ending September 30, 1995; and
- ii. the eight fiscal quarters of Borrower ending on the last day of each fiscal quarter thereafter commencing with the fiscal quarter ending December 30, 1995.

9. EVENTS OF DEFAULT

The occurrence of any of the following events or conditions shall constitute an Event of Default hereunder:

- a. Obligations. Borrower shall fail to make any payments of principal or interest of the Obligations when due;
- b. Misrepresentations. Borrower shall make any representations or warranties in any of the Loan Documents or in any certificate or statement furnished at any time hereunder or in connection with any of the Loan Documents which proves to have been untrue or misleading in any material respect when made or furnished and which continues to be untrue or misleading in any material respect.
- c. Certain Covenants. Borrower shall default in the observance or performance of any covenant or agreement contained in Sections 6 (other than Sections 6.7 or 6.11), 7 or 8 of this Agreement and such default continues for more than thirty (30) days after the earlier of the date of notice thereof to such Borrower by the Agent or the date Borrower knew or should have known of such default.
- d. Other Covenants. Either Borrower shall default in the observance or performance of any other covenant or agreement contained in this Agreement or under any of the other Loan Documents.
- e. Other Debts. Either Borrower or any Subsidiary shall default in the payment when due of any Indebtedness under any guaranty, note, indenture or other agreement relating to or evidencing Indebtedness having a principal balance of \$1,000,000 or more, including, but not limited to, the Subordinated Notes and the Indebtedness under the Working Capital Credit Agreement, or any event specified in any guaranty, note, indenture or other agreement relating to or evidencing any such Indebtedness shall occur if the effect of such event is to cause or to permit (giving effect to any grace or cure period applicable thereto) the holder or holders of such Indebtedness to cause such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase or otherwise), prior to its stated maturity.
- f. Tax Lien. A notice of Lien, levy or assessment is filed of record with respect to all or any of any Borrower's or any Subsidiary's assets by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, including, without limitation, the PBGC, which in the opinion of the Majority Banks, adversely affects the priority of the Liens granted to Agent hereunder under the Deed of Trust or under the other Loan Documents.
- g. ERISA. The occurrence of any of the following events: (i) the

happening of a Reportable Event with respect to any Plan which Reportable Event could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a material adverse effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (ii) the disqualification or involuntary termination of a Plan for any reason which could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a material adverse effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (iii) the voluntary termination of any Plan while such Plan has a funding deficiency (as determined under Section 412 of the Code) which could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a material adverse effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (iv) the appointment of a trustee by an appropriate United States district court to administer any such Plan; (v) the institution of any proceedings by the PBGC to terminate any such Plan or to appoint a trustee to administer any such Plan; (vi) the failure of Borrower to notify the Agent and the Banks promptly upon receipt by Borrower or any of its Subsidiaries of any notice of the institution of any proceeding or other actions which may result in the termination of any such Plan.

- h. Voluntary Bankruptcy. Borrower or any of its Subsidiaries shall: (a) file a voluntary petition or assignment in bankruptcy or a voluntary petition or assignment or answer seeking liquidation, reorganization, arrangement, readjustment of its debts, or any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether State, Federal, or foreign, now or hereafter existing; (b) enter into any agreement indicating consent to, approval of, or acquiescence in, any such petition or proceeding; (c) apply for or permit the appointment, by consent or acquiescence, of a receiver, custodian or trustee of Borrower or any of its Subsidiaries or for all or a substantial part of its property; (d) make a general assignment for the benefit of creditors; or (e) be unable or shall fail to pay its debts generally as such debts become due, admit in writing its inability or failure to pay its debts generally as such debts become due, or otherwise become insolvent.

- i. Involuntary Bankruptcy. There

shall have been filed against Borrower or any of its Subsidiaries an involuntary petition in bankruptcy or seeking liquidation, reorganization, arrangement, readjustment of its debts or any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether State, Federal or foreign, now or hereafter existing; Borrower or any of its Subsidiaries shall suffer or permit the involuntary appointment of a receiver, custodian or trustee of Borrower or any of its Subsidiaries or for all or a substantial part of its property; or Borrower or any of its Subsidiaries shall suffer or permit the issuance of a warrant of attachment, execution or similar process against all or any substantial part of the property of Borrower or any of its Subsidiaries.

- j. Suspension of Business. The suspension of the transaction of the usual business of the Borrower or of the usual business of any of its Subsidiaries or the involuntary dissolution of the Borrower or the involuntary dissolution of any of its Subsidiaries.
- k. Judgments. Any judgment, decree or order for the payment of money which, when aggregated with all other judgments, decrees or orders for the payment of money pending against Borrower or any of its Subsidiaries, exceeds the sum of \$1,000,000, shall be rendered against Borrower or any of its Subsidiaries and remain unsatisfied and in effect for a period of sixty (60) consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal.
- l. Change in Control. There occurs a "Change in Control" as such term is defined on the date hereof in the Subordinated Notes Indenture.
- m. Event of Default under Deed of Trust, Second Deed of Trust or Third Deed of Trust. There occurs an "Event of Default" under the Deed of Trust, the Second Deed of Trust or the Third Deed of Trust.

10. REMEDIES

Upon the occurrence or existence of any Event of Default, and during the continuation thereof, without prejudice to the rights of the Agent and the Banks to enforce their claims against Borrower for damages for failure by Borrower to fulfill any of the obligations hereunder, the Agent and the Banks shall have the following rights and remedies, in addition to any other rights and remedies available to the Agent and the Banks at law, in equity or otherwise:

- a. Default Rate. At the election of the Majority Banks, evidenced by written notice to the Borrower, the outstanding principal balance of the Obligations and, to the extent permitted by applicable law, accrued and unpaid interest thereon, shall bear interest at the Default Rate until paid in full.

- b. Acceleration of the Obligations. In the event of the occurrence of an Event of Default set forth in Sections 9.8 or 9.9 hereof, the Obligations shall automatically and immediately become due and payable; and any other Event of Default, the Majority Banks, at their option, may declare all of the Obligations to be immediately due and payable, whereupon all of the Obligations shall become immediately due and payable, in either case without presentment, demand, protest, notice of non-payment or any other notice required by law relative thereto, all of which are hereby expressly waived by Borrower, anything contained herein to the contrary notwithstanding.
- c. Set-Off. The right of each Bank to set-off, without notice to Borrower, any and all deposits at any time credited by or due from such Bank to Borrower, whether in a general or special, time or demand, final or provisional account or any other account or represented by a certificate of deposit and whether or not unmatured or contingent.
- d. Rights and Remedies of a Secured Party. All of the rights and remedies of a secured party under the UCC or under other applicable law, all of which rights and remedies shall be cumulative, and none of which shall be exclusive, to the extent permitted by law, in addition to any other rights and remedies contained in this Agreement, and in any of the other Loan Documents.
- e. Take Possession of Collateral. The right of the Agent to (a) enter upon the Land, or any other place or places where the Collateral is located and kept, through self-help and without judicial process, without first obtaining a final judgment or giving Borrower notice and opportunity for a hearing on the validity of the Agent's or the Banks' claim and without any obligation to pay rent to Borrower, and remove the Collateral therefrom to the premises of Agent or any agent of Agent, for such time as Agent may desire, in order to effectively collect or liquidate the Collateral, and/or (b) require Borrower to assemble the Collateral and make it available to Agent at a place to be designated by Agent which is reasonably convenient to both Borrower and Agent.
- f. Sale of Collateral. The right of the Agent to sell or to otherwise dispose of all or any of the Collateral, at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, for cash or on credit, all as Agent, in its sole discretion, may deem advisable; such sales may be adjourned from time to time with or without notice. Agent shall have the right to conduct such sales on Borrower's premises or elsewhere and shall have the

right to use Borrower's premises without charge for such sales for such time or times as Agent may see fit. Agent is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks and advertising matter, or any property of a similar nature, whether owned by Borrower or with respect to which Borrower has rights under license, sublicense or other agreements, as it pertains to the Collateral, in preparing for sale, advertising for sale and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to the benefit of the Agent and the Banks. Agent shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof, and the Agent or any Bank may purchase all or any part of the Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set off the amount of such price against the Obligations. The proceeds realized from the sale of any Collateral shall be applied first to the costs, expenses and reasonable attorneys' fees and expenses incurred by Agent for collection and for acquisition, completion, protection, removal, storage, sale and delivery of the Collateral; second to interest due upon any of the Obligations; and third to the principal of the Obligations. If any deficiency shall arise, Borrower shall remain liable to the Banks therefor.

- g. Remedies Under Deed of Trust, Second Deed of Trust and Third Deed of Trust. The right of the Agent to sell or otherwise dispose of all or any of the Mortgaged Property, in the manner provided for in the Deed of Trust, the Second Deed of Trust, and the Third Deed of Trust all other rights and remedies available to the Agent under the Deed of Trust, the Second Deed of Trust and the Third Deed of Trust.
- h. Notice. Any notice required to be given by Agent of a sale, lease, other disposition of the Collateral or any other intended action by Agent, given to Borrower in the manner set forth in Section 13.8 below, ten (10) days prior to such proposed action, shall constitute commercially reasonable and fair notice thereof to Borrower.
- i. Appointment of Agent as Borrower's Lawful Attorney. Borrower irrevocably designates, makes, constitutes and appoints Agent (and all persons designated by Agent) as Borrower's true and lawful attorney, and Agent or Agent's agent, may, without notice to Borrower, and at such time or times thereafter as Agent or said agent, in its sole discretion, may determine, in Borrower's or Agent's name do all acts and things necessary, in Agent's sole

discretion, to fulfill Borrower's obligations under this Agreement.

11. CONDITIONS PRECEDENT

Notwithstanding any other provision of this Agreement, it is understood and agreed that the Banks shall have no obligation to make any Loan unless and until the following conditions have been met, to the sole and complete satisfaction of the Banks, the Agent and their respective counsel:

- a. No Injunction. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain, or prohibit, or to obtain substantial damages in respect of, or which is related to or arises out of this Agreement or the making of such Loan, or which in the Banks' sole discretion, would make it inadvisable to make such Loan.
- b. No Material Adverse Change. Since [October 1, 1994] there shall not have occurred any material adverse change in Borrower's or any Subsidiary's business, or any event, condition, or state of facts which would be expected materially and adversely to affect the prospects of Borrower or any of its Subsidiaries subsequent to consummation of the transactions contemplated by this Agreement as determined by the Majority Banks in their sole discretion.
- c. No Default or Event of Default. There shall exist no Default or Event of Default or any event or condition which, with the making of the Loans would constitute a Default or Event of Default.
- d. Regulatory Restrictions. Neither Borrower nor any of its Subsidiaries shall be subject to any applicable statute, rule, regulation, order, writ or injunction of any court or governmental authority or agency which would materially restrict or hinder the conduct of Borrower's or such Subsidiary's business as conducted on the date hereof or which would have a material adverse affect on the business, property, assets, operations or condition, financial or otherwise of Borrower or such Subsidiary.
- e. Compliance with Law. The Agent shall have received such evidence as it may reasonably request that the Land and the Mortgaged Property and the uses thereof comply in all material respects with all applicable laws, regulations, codes, orders, ordinances, rules and statutes, including, without limitation, those relating to zoning and environmental protection.
- f. Documentation. The Agent and the Banks shall have received the following, each duly executed and delivered to the Agent and the Banks, and

each to be satisfactory in form and substance to Agent and its counsel:

- i. the Notes;
- ii. the Deed of Trust;
- iii. the Second Deed of Trust;
- iv. the Third Deed of Trust;
- v. a Reaffirmation of that certain Environmental Indemnity Agreement dated June 3, 1993, reaffirming the warranties and representations made by Borrower thereunder;
- vi. a certificate signed by the chief executive officer and chief financial officer of Borrower dated as of the Closing Date, stating that the representations and warranties set forth in Article 5 hereof are true and correct in all material respects on and as of such date with the same effect as though made on and as of such date, stating that Borrower is on such date in compliance with all the terms and conditions set forth in this Agreement on its part to be observed and performed, and stating that on such date, and after giving effect to the making of any initial Loan no Default or Event of Default has occurred or is continuing;
- vii. a certificate executed by the chief financial officer of Borrower dated as of the Closing Date with respect to the Equipment owned by Borrower;
- viii. a certificate of the Secretary of Borrower dated as of the Closing Date certifying (i) that attached thereto is a true and correct copy of the By-Laws of Borrower, as in effect on the date of such certification, (ii) that attached thereto is a true and complete copy of Resolutions adopted by the Board of Directors of Borrower, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents; and (iii) as to the incumbency and genuineness of the signatures of the officers of Borrower executing this Agreement or any of the other Loan Documents;
- ix. a copy of the Articles of Incorporation of the Borrower, and all amendments thereto, certified by the Secretary of State of the State of Delaware dated as of a date close to the Closing Date;
- x. copies of all filing receipts or acknowledgements issued by any governmental authority to evidence any filing or recordation necessary to perfect the Liens of Agent in the Collateral and evidence in a form acceptable to the Majority Banks that such Liens constitute valid and perfected first priority Liens;
- xi. a Good Standing Certificate for Borrower, issued by the Secretary of State of Texas, dated as of a date close to the Closing Date;
- xii. certified copies of Borrower's casualty and liability insurance policies with evidence of the payment of the premium therefor, together, in the case

of such casualty policies, with loss payable and mortgagee endorsements on Agent's standard form naming Agent as loss payee;

- xiii. the written opinion of Godwin & Carlton, counsel to Borrower, dated as of the Closing Date, in the form attached hereto as Exhibit E hereto, as to the transactions contemplated by this Agreement;
- xiv. assurance from a title insurance company satisfactory to the Agent and the Banks that such title insurance company is committed to cause the Third Deed of Trust to be recorded and, upon recordation of the Third Deed of Trust, to issue its ALTA lender's title insurance policies in a form acceptable to the Agent and in amounts satisfactory to the Agent, showing the Third Deed of Trust as the "insured mortgage" and insuring the validity and priority of the Third Deed of Trust as a Lien upon the specified Owned Real Property, subject only to the First Deed of Trust and the Second Deed of Trust and to the Permitted Liens described in clauses (b) - (d) of the definition thereof; and
- xv. such other documents, instruments and agreements with respect to the transactions contemplated by this Agreement, in each case in such form and containing such additional terms and conditions as may be reasonably satisfactory to the Majority Banks, and containing, without limitation, representations and warranties which are customary and usual in such documents.

12. THE AGENT

- a. Appointment, Powers and Immunities. Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder with such powers as are specifically delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Agent (which term as used in this sentence and in Section 12.5 and the first sentence of Section 12.6 hereof shall include reference to its Affiliates and its own and its Affiliates' officers, directors, employees and agents): shall have no duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Bank; shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement or any of the other Loan Documents, or in any certificate or other instrument, document or agreement referred to or provided for in, or received by any of them under, this Agreement or any of the other Loan Documents, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any of the other Loan Documents or for any failure by any Borrower or any other Person to perform

any of its obligations hereunder or thereunder; subject to Section 12.3 hereof, shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other agreement, document or instrument referred to or provided for herein or in connection herewith, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer.

- b. Reliance by Agent. The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telex, facsimile, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent. As to any matters not expressly provided for by this Agreement, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by the Majority Banks, and such instructions of the Majority Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks.
- c. Defaults. The Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or Event of Default (other than the non-payment of principal of or interest on Loans) unless the Agent has received notice from a Bank or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or Event of Default, the Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such non-payment). The Agent shall (subject to Section 12.7 hereof) take such action with respect to such Default or Event of Default as shall be directed by the Majority Banks, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Banks.
- d. Rights as a Bank. With respect to its Loan Percentage and the Loans made by it, Creditanstalt (and any successor acting as Agent) in its

capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include the Agent in its individual capacity. Creditanstalt (and any successor acting as Agent) and its Affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with Borrower (and any of its Affiliates) as if it were not acting as the Agent, and Creditanstalt and its Affiliates may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Banks.

- e. Indemnification. The Banks agree to indemnify the Agent (to the extent not reimbursed under Sections 13.6 or 13.14 hereof, but without limiting the obligations of Borrower under said Sections 13.6 and 13.14), for their Loan Percentage of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any other instruments, documents or agreements contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses which Borrower is obligated to pay under Section 13.6 hereof but excluding, unless an Event of Default has occurred and is continuing, normal administrative costs expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or of any such other instruments, documents or agreements, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

- f. Non-Reliance on Agent and other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its own decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or any other instrument, document or agreement

referred to or provided for herein or to inspect the properties or books of the Borrower. Except for notice, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower (or any of its Affiliates) which may come into the possession of the Agent or any of its Affiliates.

- g. Failure to Act. Except for action expressly required of the Agent hereunder, the Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the Banks of their indemnification obligations under Section 12.5 hereof against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.
- h. Resignation or Removal of Agent; Co-Agent.
- i. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice thereof to the Banks and the Borrower and the Agent may be removed at any time with cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment with 30 days after the retiring Agent's giving of notice of resignation or the Majority Bank's removal of the retiring Agent, the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a bank which has a combined capital and surplus of at least Five Hundred Million Dollars (\$500,000,000). Upon the acceptance of any appointment as Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Section 12 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent.
- ii. In the event that applicable law imposes any restrictions on the identity of an agent such as the Agent or requires the appointment of any co-agent in connection therewith, the Agent may, in its discretion, for the purpose of complying with such restrictions, appoint one or more co-agents hereunder. Any such Co-Agent(s) shall have the same rights, powers, privileges and obligations as the Agent and shall be subject to and entitled to the benefits of all provisions of this Agreement and the Loan Documents relative to the Agent. In addition to any rights of the Majority Banks set forth in subsection (a) above, any such Co-Agent may be removed at any time by the Agent.

13. MISCELLANEOUS

- a. Intellectual Property License. Agent is hereby granted a non-exclusive, assignable license or other right to use, without charge, Borrower's copyrights, patents, patent applications, designs, rights of use, or any property of a similar nature, whether owned by Borrower or with respect to which Borrower has rights under license, sublicense or other agreements (collectively, the "Intellectual Property Rights"), to the extent such Intellectual Property Rights are necessary for the proper operation of, or are used by Borrower in the operation of, the Collateral or the Mortgaged Property. Such license may only be used in connection with the operation of the Collateral and the Mortgaged Property, shall terminate upon the payment in full of the Obligations at any time when there does not exist an Event of Default, and shall become perpetual (and shall survive the termination of this Agreement) upon the transfer of any of the Collateral or the Mortgaged Property in foreclosure of the Agent's Liens in such Collateral or Mortgaged Property, whether such foreclosure is by right of private sale, judicial sale, deed in lieu, retention in satisfaction of the Obligations or otherwise. Borrower agrees, at the request of the Agent or the Majority Banks, to take any and all actions and to execute, deliver and/or record any and all instruments, documents, licenses or agreements, as may be necessary or appropriate to confirm the foregoing license and/or evidence such license in any public record.
- b. Waiver. Each and every right and remedy granted to the Agent and the Banks under this Agreement, or any other document delivered hereunder or in connection herewith or allowed it by law or in equity, shall be cumulative and may be exercised from time to time. No failure on the part of the Agent or any Bank to exercise, and no delay in exercising, any right or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by the Agent or any Bank of any right or remedy preclude any other or future exercise thereof or the exercise of any other right or remedy. No waiver by the Agent or the Banks of any Default or Event of Default shall constitute a waiver of any subsequent Default or Event of Default.
- c. Survival. All representations, warranties and covenants made herein shall survive the execution and delivery of all of the Loan Documents. The terms and provisions of this Agreement shall continue in full force and effect until all of the Obligations have been indefeasibly paid in full; provided, further, that Borrower's obligations under Sections 3.6, 3.7, 13.6 and 13.14 shall survive

the termination of this Agreement.

- d. Assignments; Successors and Assigns.
- i. This Agreement is a continuing obligation and binds, and the benefits hereof shall inure to, Borrower, Agent and each Bank and their respective successors and assigns provided, that Borrower may not transfer or assign any or all of its rights or obligations hereunder without the prior written consent of all of the Banks.
- ii. Any Bank may, in the ordinary course of its commercial banking business and in accordance with the applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loans owing to such Bank, any of the Notes held by such Bank, or any other interests of such Bank hereunder. Borrower agrees that each Participant shall be entitled to the benefits of Section 3.7 and 13.14 with respect to its participation; provided that no Participant shall be entitled to receive any greater amount pursuant to such Section than such Bank would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.
- iii. Each Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time assign, pursuant to an assignment substantially in the form of Exhibit F attached hereto and incorporated herein by reference, without the Borrower's consent, to one or more banks having unimpaired capital and surplus of \$250,000,000 or more or may assign with the Borrower's consent (which shall not be unreasonably withheld) to any other entities (in either case, "Assignees") all or any part of any Loans owing to such Bank, any of the Notes held by such Bank, or any other interest of such Bank hereunder; provided, however, that any such assignment shall be in a minimum principal amount of Two Million Dollars (\$2,000,000). Borrower and the Banks agree that to the extent of any assignment the Assignee shall be deemed to have the same rights and benefits with respect to Borrower under this Agreement and any of the Notes as it would have had if it were a Bank hereunder on the date hereof and the assigning Bank shall be released from its obligations hereunder, to the extent of such assignment.
- iv. Borrower authorizes each Bank to disclose to any Participant or Assignee ("Transferee") and any prospective Transferee any and all financial information in such Bank's possession concerning Borrower which has been delivered to such Bank by Borrower pursuant to this Agreement or which has been delivered to such Bank by Borrower in connection with such Bank's credit evaluation of Borrower prior to entering into this Agreement.
- v. Any Bank shall be entitled to have any Note held by it subdivided in connection with a permitted assignment of all or any portion of such Note and the respective Loans evidenced thereby pursuant to Section 13.4(c) above. In the case of any such subdivision, the new Note (the "New

Note") issued in exchange for a Note (the "Old Note") previously issued hereunder shall be substantially in the form of Exhibit B hereto, shall be dated the date of such assignment, shall be otherwise duly completed and shall bear a legend, to the effect that such New Note is issued in exchange for such Old Note and that the indebtedness represented by such Old Note shall not have been extinguished by reason of such exchange. Without limiting the obligations of Borrower under Section 13.6 hereof, the Banks shall use reasonable best efforts to ensure that any such assignment does not result in the imposition of any intangibles, documentary stamp and other taxes, if any, which may be payable in connection with the execution and delivery of any such New Note.

- vi. If, pursuant to this subsection, any interest in this Agreement or any of the Notes is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the Bank making such transfer shall cause such Transferee, concurrently with the effectiveness of such transfer, (i) to represent to such Bank (for the benefit of such Bank and Borrower) that under applicable law and treaties no taxes will be required to be withheld by such Bank or Borrower with respect to any payments to be made to such Transferee hereunder or in respect of the Loans, (ii) to furnish to such Bank and Borrower either U.S. Internal Revenue Service Form 4224 or U.S. Internal Revenue Service Form 1001 (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all payments hereunder) and (iii) to agree (for the benefit of such Bank and Borrower) to provide such Bank and Borrower a new Form 4224 or Form 1001 upon the obsolescence of any previously delivered form and comparable statements in accordance with applicable U.S. laws and regulations and amendments duly executed and completed by such Transferee, and to comply from time to time with all applicable U.S. laws and regulations with regard to such withholding tax exemption.
- e. Counterparts. This Agreement may be executed in two or more counterparts, each of which when fully executed shall be an original, and all of said counterparts taken together shall be deemed to constitute one and the same agreement. Any signature page to this Agreement may be witnessed by a telecopy or other facsimile of any original signature page and any signature page of any counterpart hereof may be appended to any other counterpart hereof to form a completely executed counterpart hereof.
- f. Expense Reimbursement. Borrower agrees to reimburse the Agent for all of the Agent's expenses incurred in connection with the development, preparation, execution, delivery, modification, regular review and administration of this Agreement, the Notes and the other Loan Documents, including audit costs, appraisal costs, the cost of searches, filings and filing fees, taxes and the fees and disbursements of Agent's attorneys, Messrs. Troutman Sanders, and any counsel retained by them, and all costs and

expenses incurred by the Agent and the Banks (including attorney's fees and disbursements) to: (i) commence, defend or intervene in any court proceeding; (ii) file a petition, complaint, answer, motion or other pleading, or to take any other action in or with respect to any suit or proceeding (bankruptcy or otherwise) relating to the Collateral, the Mortgaged Property or this Agreement, the Deed of Trust, the Second Deed of Trust, the Third Deed of Trust, the Notes or any of the other Loan Documents; (iii) protect, collect, lease, sell, take possession of, or liquidate any of the Collateral or the Mortgaged Property; (iv) attempt to enforce any Lien in any of the Collateral or the Mortgaged Property or to seek any advice with respect to such enforcement; and (v) enforce any of the Agent's and the Banks' rights to collect any of the Obligations. Borrower also agrees to pay, and to save harmless the Agent and the Banks from any delay in paying, any intangibles, mortgage, documentary stamp and other taxes, if any, which may be payable in connection with the execution and delivery of this Agreement, the Notes or any of the other Loan Documents, or the recording of any thereof, or in any modification hereof or thereof. Additionally, Borrower shall pay to the Agent and each Bank on demand any and all fees, costs and expenses which the Agent or such Bank pays to a bank or other similar institution arising out of or in connection with (a) the forwarding to Borrower or any other Person on Borrower's behalf, by the Agent or such Bank of proceeds of any Loan and (b) the depositing for collection by of any check or item of payment received by or delivered to the Agent or such Bank on account of the Obligations. Borrower's obligations under this Section shall survive the termination of this Agreement and the repayment of the Obligations.

g. Severability. If any provision of this Agreement or any of the Loan Documents or the application thereof to any party thereto or circumstances shall be invalid or unenforceable to any extent, the remainder of this Agreement or such Loan Documents and the application of such provisions to any other party thereto or circumstance shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

h. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been given or made when (a) delivered by hand, (b) sent by telex or telecopier (with receipt confirmed), provided that a copy is mailed by certified mail, return receipt requested, or (c) except as otherwise provided herein, deposited in the mail, registered or certified mail, postage prepaid, addressed to such party at the "Address for Notices" specified

below its name on the signature pages hereto or to such other address as may be designated hereafter in writing by the respective parties hereto.

- i. Entire Agreement - Amendment. This Agreement and the Loan Documents constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior negotiations, understandings and agreements between such parties in respect of such subject matter, including, without limitation, as set forth in that certain proposal letter dated June 9, 1995 from Creditanstalt to Borrower, accepted by Borrower June 13, 1995. Neither this Agreement nor any provision hereof may be changed, waived, discharged, modified or terminated except pursuant to a written instrument signed by Borrower, the Agent and the Majority Banks or by the Borrower and the Agent acting with the consent of the Majority Banks; provided, however, that no such amendment, waiver, discharge, modification or termination shall, except pursuant to an instrument signed by Borrower, the Agent and all of the Banks or by the Borrower and the Agent acting with the consent of all of the Banks, extend the date fixed for the payment of principal of, or interest on, any Loan; reduce the amount of any payment of principal of, or the rate of interest on, any Loan (except for changes in interest rates pursuant to Section 3.1(b) hereof); reduce any fee payable hereunder; alter the terms of this Section 13.9; release any collateral securing the Loans, or any portion thereof; change the Loan Percentage of any Bank; or amend the definitions of the term "Majority Banks" set forth in Section 1.1 hereof; provided, further, that any amendment, waiver, discharge modification or termination of any provision of Section 12 hereof, or which increases the obligations of the Agent hereunder, shall require the written consent of the Agent.
- j. Time of the Essence. Time is of the essence in this Agreement and the other Loan Documents.
- k. Interpretation. No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.
- l. Banks Not a Joint Venturer. Neither this Agreement nor any agreements, instruments, documents or transactions contemplated hereby (including the Loan Documents) shall in any respect be interpreted, deemed or construed as making the Agent or the Banks a partner or joint venturer with Borrower or as creating any similar relationship or entity, and Borrower agrees that it will not make any

assertion, contention, claim or counterclaim to the contrary in any action, suit or other legal proceeding involving the Agent or the Banks and Borrower.

- m. Cure of Defaults by Banks. If, hereafter, Borrower defaults in the performance of any duty or obligation to the Agent and the Banks hereunder, the Agent or any Bank may, at its option, but without obligation, cure such default and any costs, fees and expenses incurred by the Agent or such Bank in connection therewith including, without limitation, for payment on mortgage or note obligations, for the purchase of insurance, the payment of taxes and the removal or settlement of Liens and claims, shall be included in the Obligations and be secured by the Collateral and the Mortgaged Property.

- n. Indemnity. In addition to any other indemnity provided for herein, or in the other Loan Documents, Borrower hereby indemnifies the Agent and each Bank from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against the Agent or such Bank in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person (other than Borrower) with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the other Loan Documents, or the other transactions contemplated hereby, whether or not Agent or such Bank is a party thereto, except to the extent that any of the foregoing arises out of gross negligence or willful misconduct of Agent or such Bank, as the case may be. Borrower's obligations under this Section shall survive the termination of this Agreement and the repayment of the Obligations.

- o. Attorney-in-Fact. Borrower hereby designates, appoints and empowers Agent irrevocably as its attorney-in-fact, at Borrower's cost and expense, to do in the name of Borrower any and all actions which Agent may deem necessary or advisable to carry out the terms hereof upon the failure, refusal or inability of Borrower to do so, and Borrower hereby agrees to indemnify and hold Agent harmless from any costs, damages, expenses or liabilities arising against or incurred by the Agent in connection therewith except to the extent that any of such costs, damages, expenses or liabilities arise out of Agent's gross negligence or willful misconduct.

- p. Sole Benefit. The rights and benefits set forth in this Agreement and

in the other Loan Documents are for the sole and exclusive benefit of the parties thereto and may be relied upon only by them.

- q. Termination Statements.
Borrower acknowledges and agrees that it is Borrower's intent that all financing statements filed hereunder shall remain in full force and effect until this Agreement shall have been terminated in accordance with the provisions hereof, even if, at any time or times prior to such termination, no loans or Loans shall be outstanding hereunder. Accordingly, Borrower waives any right which it may have under Section 9-404(1) of the UCC to demand the filing of termination statements with respect to the Collateral, and agrees that the Agent shall not be required to send such termination statements to Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid in full in immediately available funds. Upon such termination and payment in full, Agent shall execute appropriate termination statements and deliver the same to Borrower.
- r. Governing Law; Jurisdiction.
THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW). BORROWER HEREBY (A) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT AND (B) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT OR ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR THE BANKS TO BRING PROCEEDINGS AGAINST BORROWER IN THE COURTS OF ANY OTHER JURISDICTION.
- s. Waiver of Jury Trial.
BORROWER, AGENT AND EACH BANK EACH HEREBY KNOWINGLY, INTELLIGENTLY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL PROCEEDING BASED ON OR ARISING OUT OF, UNDER, IN CONNECTION WITH, OR RELATING TO THIS AGREEMENT, ANY OF THE NOTES, ANY OF THE OTHER LOAN DOCUMENTS, THE TRANSACTIONS CONTEMPLATED HEREBY, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF BORROWER, AGENT OR ANY BANK. THIS

PROVISION IS A MATERIAL INDUCEMENT FOR
THE BANKS MAKING THE LOANS TO BORROWER.

IN WITNESS WHEREOF, each of Borrower, the Agent and the
Banks has set its hand and seal as of the day and year first above
written.

"BORROWER"

PILGRIM'S PRIDE CORPORATION

By: Lonnie Bo Pilgrim

Chief Executive Office

Attest: Clifford E. Butler

Chief Financial Officer

[CORPORATE SEAL]

Address for Notices:

Pilgrim's Pride Corporation
110 South Texas
P.O. Box 93
Pittsburg, Texas 75686
Attn: Mr. Clifford E. Butler
Telecopy Number: (903) 856-7505

with a copy to:

Godwin & Carlton
901 Main Street
Dallas, Texas 75202
Attn: James R. Vetter, Esq.
Telecopy Number: (214) 760-7332

"AGENT"

CREDITANSTALT-BANKVEREIN

By: Robert M. Biringer
Senior Vice President

By: Daniel D. Lensgras
Senior Associate

Address for Notices:
Creditanstalt-Bankverein
245 Park Avenue
New York, New York 10167
Attn: Dennis O'Dowd
Telecopy Number: (212) 851-1234

with copies to:

Creditanstalt-Bankverein
Two Ravinia Drive
Suite 1680
Atlanta, Georgia 30346
Attn: Robert M. Biringer/Joseph P. Longosz
Telecopy Number: (404) 390-1851

and

Troutman Sanders
NationsBank Plaza, Suite 5200
600 Peachtree Street, N.E.
Atlanta, Georgia 30308-2216

Attn: Hazen H. Dempster, Esq.
Telecopy Number: (404) 885-3900

Loan Percentage

100%

"BANKS"

CREDITANSTALT-BANKVEREIN

By: Robert M. Biringer
Senior Vice President

By: Daniel D. Lensgras
Senior Associate

Address for Notices:
Creditanstalt-Bankverein
245 Park Avenue
New York, New York 10167
Attn: Dennis O'Dowd
Telecopy Number: (212) 851-1234

with copies to:

Creditanstalt-Bankverein
Two Ravinia Drive
Suite 1680
Atlanta, Georgia 30346
Attn: Robert M. Biringer/Joseph P. Longosz
Telecopy Number: (404) 390-1851

and

Troutman Sanders
NationsBank Plaza, Suite 5200
600 Peachtree Street, N.E.
Atlanta, Georgia 30308-2216
Attn: Hazen H. Dempster, Esq.
Telecopy Number: (404) 885-3900

REVOLVING CREDIT LOAN AGREEMENT

Agricultural Production Credit Association ("Lender")

Pilgrim's Pride Corporation ("Borrower")

March 27, 1995

TABLE OF SCHEDULES

Schedule 1.01	Description of Land included in Collateral
Schedule 5.06	Litigation and Related Proceedings
Schedule 5.18	ERISA Matters
Schedule 5.20	Corporate and Trade or Fictitious Names
Schedule 5.22	Investments
Schedule 5.27	Executive Offices, Business and Collateral Locations
Schedule 5.29	Hazardous Substances and Underground Storage Tanks
Schedule 6.08	February 1, 1995 Proxy Statement of Borrower

REVOLVING CREDIT LOAN AGREEMENT

This Revolving Credit Loan Agreement is dated as of the 27th day of March, 1995, between Agricultural Production Credit Association, a federally chartered production credit association, organized and operating under the Farm Credit Act of 1971, as amended, with its principal place of business at 3210 W.N.W. Loop 323, Tyler, Texas (hereinafter referred to as "Lender"), and Pilgrim's Pride Corporation, a Delaware corporation authorized to do business in the state of Texas, with its principal place of business at 110 S. Texas, Pittsburg, Texas (hereinafter referred to as "Borrower").

RECITALS

WHEREAS, Borrower has requested that Lender provide Borrower with a revolving credit facility and Lender is willing to provide such a facility to Borrower upon the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the parties agree as follows:

ARTICLE I. DEFINITIONS, TERMS AND REFERENCES

1.01. Certain Definitions. When used in this Agreement, the following terms shall have the following meanings:

"Accrued Interest in Principal" shall mean accrued interest that is added to the principal balance of the Note under Section 2.11(a) hereof.

"Act" means the Farm Credit Act of 1971, and all regulations issued thereunder, as such act and regulations now exist or are hereafter amended, supplemented, or superseded by act of Congress, the FCA, or otherwise.

"Advance" shall mean each sum advanced to Borrower under the terms of this Agreement and constituting a portion of the "Obligations".

"Advance Conditional Payment Account" shall mean any account at Lender into which Borrower may make voluntary advance conditional payments intended to be applied to any amount due on the Obligations pursuant to 12 U.S.C. 2219(b) and 12 C.F.R. 614.4513, or any other provisions of the Act.

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, owns or controls, on an aggregate basis, including all beneficial ownership and ownership or control as trustee, guardian or other fiduciary, at least ten percent (10%) of the outstanding shares of capital stock having ordinary voting power to elect a majority of the board of directors (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) of such Person; or which controls, is controlled by or is under common control with such Person. For the purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Revolving Credit Loan Agreement, either as originally executed or as it may be amended from time to time.

"Borrower" shall mean Pilgrim's Pride Corporation, a Delaware corporation, with its principal place of business at 110 S. Texas, Pittsburg, Texas.

"Business Day" shall mean any day on which Lender is open for the transaction of business.

"Capital Expenditures" shall mean any expenditure by a Person for an asset which will be used in a year or years subsequent to the year in which the expenditure is made and which asset is properly classifiable, in accordance with Borrower's capitalization policies, in relevant financial statements of such Person as equipment, real property or improvements, fixed assets, or a similar type of capitalized asset in accordance with GAAP.

"Capital Lease" shall mean, as to any Person, any lease of (or other agreement conveying the right to use) real and/or personal property which is required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

"Closing Date" shall mean the date this Agreement has been signed by Borrower and Lender.

"Collateral" shall mean all property described or referred to in the Loan Documents as security for the Obligations including, but not limited to, the real and personal property described in Section 3.02 of this Agreement (together with all additions, substitutions, accessions to, replacements for and proceeds thereof, and all property subsequently taken as collateral or security for the Obligations);

"Commitment" shall mean the obligation of Lender to fund the Line of Credit to Borrower, subject to the terms and conditions hereof, in an aggregate principal amount not to exceed Thirty Million Dollars (\$30,000,000.00).

"Creditanstalt" shall mean Creditanstalt-Bankverein, an Austrian banking corporation acting through its New York (Federal) Branch, and its successors and assigns.

"Creditanstalt Agreement" shall mean that certain Loan and Security Agreement dated as of June 3, 1993 between Borrower, Creditanstalt and certain banks and providing a facility for term loans to Borrower in the aggregate principal amount of \$28,000,000.00, as such agreement was amended by the Amended and Restated Loan and Security Agreement dated July 29, 1994.

"Current Assets" of any Person shall mean the aggregate amount of assets of such Person which, in accordance with GAAP, may be

properly classified as current assets after deducting adequate reserves where proper.

"Current Liabilities" of any Person shall mean all items (including taxes accrued as estimated) which in accordance with GAAP may be properly classified as current liabilities of such Person, including in any event all amounts outstanding from time to time under this Agreement.

"Current Ratio" shall mean the ratio of the consolidated Current Assets of Borrower and its Subsidiaries to the consolidated Current Liabilities of Borrower and its Subsidiaries.

"Deed of Trust" shall mean all and singular the Deeds of Trust, Assignments of Rents, Agreements and Mortgages executed by Borrower and assigning or conveying the Collateral to secure the repayment of the Obligations, and all amendments thereto.

"Default Rate" shall mean with respect to the unpaid principal portion of the Obligations, an interest rate per annum equal to three percent (3.0%) above the Discount Rate.

"Discount Rate" shall mean the "all-in cost" being the sum of the quoted discount rate and the applicable concession charge converted to the U.S. Government semi-annual bond equivalent yield, of thirty (30) day Farm Credit discount notes rounded up to the nearest multiple of five (5) basis points (0.05 percentage points), as quoted by the Federal Farm Credit Banks' Funding Corporation, in its Daily Interest Rate Summary (Bid Yields) Report issued to FCBT, on the fifteenth (15th) day of each calendar month, or the next Business Day thereafter.

"Environmental Laws" shall mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment including, without limitation, the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901 et seq., the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601-9657, as amended by the Superfund Amendments and Reauthorization Act of 1986, the Hazardous Materials Transportation Act, 49 U.S.C. 6901 et seq., Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq., the Clean Air Act, 42 U.S.C. 741 et seq., the Clean Water Act, 33 U.S.C. 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. 2601 et seq., the Safe Drinking Water Act, 42 U.S.C. 300f-300j, the United States Environmental Protection Agency's Rules concerning Underground Storage Tanks, 52 Fed. Reg. 12661, the Texas Water Code, as amended, the Texas Health and Safety Code, as amended, and any federal or state rules or regulations which implement such legislation, and all similar federal, state and local environmental statutes and ordinances and the regulations, permits, licenses, registrations, orders and decrees now or hereafter promulgated or issued thereunder.

"Equipment" shall mean all of Borrower's equipment, as such term is defined in Section 9.109 of the Texas Business and Commerce Code, now or hereafter located on, affixed to, or based at the Land, whether now owned or existing or hereafter acquired or manufactured and whether or not subsequently removed from the Land, including all equipment described in or covered by that certain Appraisal of Pilgrim's Pride Integrated Broiler Facilities in Camp, Upshur and Dallas Counties, Texas and Hempstead, Arkansas, dated as of January 3, 1995, prepared for Lender by Bob G. Derryberry, ARA and Bryan A. Carrell, MAI, together with any and all accessories, accessions, parts and appurtenances thereto, replacements thereof and substitutions therefor.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time-to-time, and all rules and regulations from time-to-time promulgated thereunder.

"ERISA Affiliate" shall mean each trade or business (whether or not incorporated) which, together with Borrower, is treated as a single employer under Section 4.14(b), (c), (m) or (o) of the Internal Revenue Code.

"Event of Default" shall mean the occurrence or happening of

any of the events set forth in Article IX hereof.

"Expiration Date" shall mean the date the term of this Agreement expires pursuant to Section 2.05 hereof, or otherwise.

"FCA" shall mean the Farm Credit Administration, an independent agency in the executive branch of the Federal government, as established by the Act.

"FCBT" shall mean the Farm Credit Bank of Texas, a federally chartered instrumentality of the United States, organized and existing under the Act, with its principal place of business at 6210 Highway 290 E., Austin, Texas.

"Fiscal Period" shall mean any one of the twelve (12) month end accounting periods of the Borrower that make up a Fiscal Year.

"Fiscal Quarter" shall mean any one of the four (4) quarter end accounting periods of the Borrower that make up a Fiscal Year.

"Fiscal Year" shall mean, for any year, the 52 or 53 week period ending on the Saturday closest to September 30 of such year, regardless of whether such Saturday occurs in September or October of such year.

"Fixed Charge Coverage Ratio" shall mean, for any period, the ratio of (a) the sum of (i) net income before taxes for such period, plus (ii) interest expense for such period, plus (iii) depreciation and amortization for financial reporting purposes for such period, plus (iv) the aggregate amount payable during such period under Operating Leases to (b) the sum of (i) interest expense for such period, plus (ii) scheduled principal payments for such period on all Indebtedness for borrowed money which would, in accordance with GAAP be classified as long-term debt, plus (iii) the aggregate amount payable during such period under Operating Leases, in each case calculated for Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"Funded Debt" shall mean, collectively, (a) the aggregate principal amount of Indebtedness for borrowed money which would, in accordance with GAAP, be classified as long-term debt, together with the current maturities thereof; (b) all Indebtedness outstanding under any revolving credit, line of credit, or similar agreement providing for borrowings (and any extension or renewals thereof), notwithstanding that any such Indebtedness is created within one year of the expiration of such agreement; (c) the principal component or obligations under any Capital Lease; and (d) any other Indebtedness bearing interest or carrying a similar payment requirement (including any Indebtedness issued at a discount to its face amount), calculated in all cases for Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"GAAP" shall mean generally accepted accounting principles consistently applied and maintained throughout the period indicated. Where applicable, generally accepted accounting principles which are consistent with the prior financial practice of Borrower (as such practice is reflected in the financial information referred to in Section 5.04 hereof) shall apply.

"Guarantor" shall mean Lonnie "Bo" Pilgrim and Patty Redding Pilgrim, jointly and severally.

"Hazardous Substances" shall mean and include, without limitation, asbestos and any substance containing asbestos, the group of organic compounds known as polychlorinated biphenyls, flammable explosives, radioactive materials, chemicals known to cause cancer or reproductive toxicity, pollutants, effluents, contaminants, emissions or related materials and also refers to materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. "Hazardous Substance(s)" shall exclude odor and poultry or animal waste, and shall include, but is not limited to, any and all hazardous or toxic substances, materials or waste as defined by or

listed under any of the Environmental Laws and all petroleum, petroleum by-products and all liquid or gaseous hydrocarbons.

"Indebtedness" shall mean, as applied to any Person at any time, (a) all indebtedness, obligations or other liabilities of such Person (i) for borrowed money or evidenced by debt securities, debentures, acceptances, notes or other similar instruments, and any accrued interest, fees and charges relating thereto; (ii) under profit payment agreements or similar agreements; (iii) with respect to letters of credit issued for such Person's account; (iv) to pay the deferred purchase price of property or services, except unsecured accounts payable and accrued expenses arising in the ordinary course of business; or (v) in respect of Capital Leases; (b) all indebtedness, obligations or other liabilities of such Person or others secured by a Lien on any property of such Person, whether or not such indebtedness obligations or liabilities are assumed by such Person, all as of such time; (c) all indebtedness, obligations or other liabilities of such Person in respect of any foreign exchange contract, interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge arrangement, net of liabilities owed to such Person by the counter-parties thereon; (d) all preferred stock subject (upon the occurrence of any contingency or otherwise) to mandatory redemption; (e) any Indebtedness of others guaranteed by such Person or for which such Person is additionally liable or responsible.

"Intangible Assets" shall mean license agreements, trademarks, trade names, patents, capitalized research and development, proprietary products (the result of past research and development treated as long term assets and excluded from Inventory) and goodwill (all determined on a consolidated basis in accordance with GAAP).

"Land" shall mean the real estate or interest therein described in Exhibit "1.01" attached hereto and incorporated herein by this reference, all fixtures or other improvements situated thereon and all rights, titles and interests appurtenant thereto.

"Leases" shall mean any and all leases, subleases, licenses, concessions or other agreements (written or oral, now or hereafter in effect), whether an Operating Lease or a Capital Lease, together with all security and other deposits made in connection therewith and all other agreements, such as architect's contracts, engineer's contracts, utilities contracts, maintenance agreements and service contracts, which in any way relate to the design, use, occupancy, operation, maintenance, enjoyment or ownership of all or any part of the Collateral.

"Leverage Ratio" shall mean, on any date, the ratio of (a) Funded Debt, as of such Fiscal Period to (b) the sum of (i) Net Worth as of such Fiscal Period and (ii) Funded Debt, as of such Fiscal Period, in each case computed for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP.

"Lien" means any mortgage, deed of trust, deed to secure debt, pledge, hypothecation, assignment for security, security interest, encumbrance, assignment of rents, lien or charge of any kind, whether voluntarily incurred or arising by operation of law, by statute, by contract, or otherwise, affecting any property, including any agreement to grant any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and/or the filing of or agreement to give any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest) under the Texas Business and Commerce Code or comparable law of any jurisdiction with respect to any property.

"Line of Credit" shall mean the Thirty Million Dollar (\$30,000,000.00) line of credit established hereunder pursuant to the terms of this Agreement by Lender in favor of Borrower, pursuant to which Borrower may obtain Advances pursuant to and subject to the terms and conditions of this Agreement. The Line of Credit is evidenced, in part, by the Note.

"Loan Documents" means those agreements, instruments and documents evidencing the terms of the Obligations including, but not

limited to, the Note, this Loan Agreement, the Deed of Trust, guaranty agreements, estoppel letters, opinions of Borrower's counsel, security agreements, UCC-1 financing statements, mortgagee's policies of title insurance, corporate resolutions and any other agreement or instrument in writing evidencing the Obligations of Borrower or Guarantor to Lender in connection with the Line of Credit, as those agreements are thereafter amended, modified, renewed or extended from time-to-time.

"Loan Limit" shall mean the limit of principal, and interest included in principal, which is the maximum amount Borrower may borrow from Lender under this Agreement as set forth in Section 2.02.

"Market Value" shall mean with respect to an asset, the most probable price which, in the good faith exercise of Lender's sole discretion and judgement, such property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Any determination of Market Value made by Lender with respect to any item of Collateral must be consistent with the Act and the collateral evaluation policies and procedures of Lender.

"Material Adverse Effect" shall mean any event or condition which, alone or when taken with other events or conditions occurring or existing concurrently therewith (a) has or is reasonably expected to have a material adverse effect on the business, operations, condition (financial or otherwise), assets, liabilities, properties or prospects of Borrower or any of its Subsidiaries or of the industry in which Borrower operates; (b) has or is reasonably expected to have any material adverse effect whatsoever on the validity or enforceability of this Agreement, the Deed of Trust or any other Loan Document; (c) materially impairs or is reasonably expected to materially impair the ability of Lender to enforce its rights and remedies under this Agreement and the Loan Documents; or (e) has or is reasonably expected to have any material adverse effect on the Collateral, the Liens of Lender in the Collateral or the priority of such Liens.

"Maturity Date" shall mean April 1, 2003, the final maturity date of the Note.

"MPPAA" shall mean the Multiemployer Pension Plan Amendments Act of 1980, amending Title IV of ERISA.

"Multiemployer Plan" shall have the same meaning as set forth in Section 4001(A)(3) of ERISA.

"Net Worth" shall mean the excess of the consolidated total assets of Borrower and its Subsidiaries over the consolidated Total Liabilities of Borrower and its Subsidiaries, excluding, however, from the definition of assets, the amount of (a) any write-up in the book value of any assets resulting from a revaluation thereof subsequent to the later to occur of (i) the Closing Date and (ii) the date Borrower (or its Subsidiary) acquired such asset; (b) treasury stock; (c) receivables from Affiliates of Borrower; and (d) unamortized original issue debt discount, all of which is to be determined in accordance with GAAP.

"Note" shall mean that certain revolving line of credit promissory note executed by Borrower, dated as of the Closing Date, in the original principal amount of Thirty Million Dollars (\$30,000,000.00) and payable to the order of Lender, its successors or assigns, as said promissory note may thereafter be amended, modified, renewed or extended from time-to-time.

"Obligations" shall mean any and all Indebtedness owed to Lender under the terms of the Note, together with all obligations and liabilities owed by Borrower to Lender under this Agreement and any other Loan Document, including without limitation, all interest, charges, fees, attorneys' fees, expenses, costs and any other sum chargeable by Lender to Borrower under this or any other Agreement. Lender's records shall be prima facie evidence of the Obligations due and owing under this Agreement.

"Operating Leases" shall mean all Leases of (or other agreements, conveying the right to use) real and/or personal property

(other than short term leases which are cancelable at any time by the lessee) which are not required to be classified and accounted for as a Capital Lease on a balance sheet under GAAP (including Statements of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board). "Operating Lease" shall mean any one of the Operating Leases.

"Participant" shall mean any lending institution, Farm Credit Bank, production credit association or other Farm Credit System institution to which Lender sells a participating interest in the Note, including each Participant's successors or assigns. "Participants" shall mean, collectively, all such institutions acquiring a participating interest in the Note.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established under ERISA.

"Permitted Liens" shall mean: (a) Liens existing on the date hereof with respect to the Collateral and which the Lender permits to be listed on Schedule B of the Title Insurance; (b) Liens in favor of Lender; (c) the interest of lessors under Operating Leases permitted hereunder; (d) Liens for (i) property taxes not delinquent, (ii) taxes not yet due; and (iii) mechanic's and materialmen's Liens with respect to liabilities which are not yet due or which are being contested in good faith, and (e) purchase money Liens on Equipment, provided, however, that (i) such Lien is created within one hundred twenty (120) days of the acquisition of such Equipment, (ii) such Lien attaches only to the specific items of Equipment so acquired, (iii) such Lien secures only the Indebtedness incurred to acquire such Equipment, and (iv) the aggregate principal amount of Indebtedness secured by such Liens does not exceed \$10,000,000.00 at any one time outstanding.

"Person" shall mean and include any individual, sole proprietorship, partnership, joint venture, trust, estate, unincorporated organization, association, corporation, institution, entity, party or government (whether national, federal, state, county, city, municipal, or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan, program, arrangement, practice or contract, maintained by or on behalf of Borrower or any ERISA Affiliate, which provides benefits or compensation to or on behalf of employees or former employees, whether formal or informal, whether or not written, including, but not limited to, the following types of plans:

(a) Executive Arrangements - any bonus, incentive compensation, stock option, deferred compensation, commission, severance, "golden parachute", "rabbi trust", or other executive compensation plan, program, contract, arrangement or practice ("Executive Arrangements");

(b) ERISA Plans - any "employee benefit plan", except any Multiemployer Plan, as defined in Section 3(3) of ERISA, whether maintained by or for a single employee or by or for multiple employees, including, but not limited to, any defined benefit pension plan, profit sharing plan, money purchase plan, savings or thrift plan, stock bonus plan, employee stock ownership plan, or any plan, fund, program, arrangement or practice providing for medical (including post-retirement medical), hospitalization, accident, sickness, disability, or life insurance benefits ("ERISA Plans");

(c) Other Employee Fringe Benefits - any stock purchase, vacation, scholarship, day care, prepaid legal services, severance pay or other fringe benefit plan, program, arrangement, contract or practice ("Fringe Benefit Plans"); and

(d) Multiemployer Plan - any Multiemployer Plan.

"Possible Default" shall mean, an event, condition or thing which, with the lapse of any applicable grace period or the giving of notice, or both, as may be required, would constitute an Event of Default referred to in Article IX hereof.

"Regulatory Change" shall mean, with respect to Lender, the adoption on or after the date hereof of any applicable federal or state law, rule or regulation or any change after such date in any such federal or state law, rule or regulation, or any adoption or change in the interpretation or administration thereof by any court, governmental authority, the FCBT, the FCA, or comparable agency or monetary authority charged with the interpretation or administration thereof, or compliance by Lender with any request or directive made after such date (whether or not having the force of law) of any such court, authority, the FCBT, the FCA, or comparable agency or monetary authority.

"Subordinated Notes" shall mean the \$100,000,000.00 Pilgrim's Pride Corporation Senior Subordinated Notes Due 2003, issued under the Subordinated Notes Indenture.

"Subordinated Notes Indenture" shall mean an Indenture, between Borrower, as Issuer, and Ameritrust Texas National Association, as Trustee, providing for the issuance of Borrower's Senior Subordinated Notes Due 2002, in an aggregate principal amount not to exceed \$100,000,000.00 as such Indenture is in effect on the Closing Date, or as it may thereafter be amended, supplemented or modified.

"Subsidiary" shall mean any corporation fifty percent (50%) or more of the Voting Shares of which is owned, directly or indirectly, by Borrower, including (without limitation) those Subsidiaries listed on Schedule 5.22 hereto.

"Supplemental Loan Agreement" shall mean any written agreement between Borrower and Lender supplementing, amending or modifying the terms of this Agreement. Any such agreement must be signed by Borrower and Lender.

"Tangible Net Worth" shall mean the Net Worth minus the amount of all Intangible Assets of Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

"Title Company" shall mean the issuer, whether one or more, of the Title Insurance.

"Title Insurance" shall mean one or more mortgagee's policies of title insurance, all in form and substance satisfactory to Lender and containing no exceptions (printed or otherwise) which are unacceptable to Lender, issued by a title company (or, if Lender so requires, by several title companies) acceptable to Lender in the aggregate amount of at least \$15,000,000.00 and insuring that Lender has a first and prior Deed of Trust on the Collateral, subject only to the Permitted Liens described in the Deed of Trust.

"Total Liabilities" shall mean all obligations, Indebtedness or other liabilities of any kind or nature, fixed or contingent, due or not due, which, in accordance with GAAP would be classified as a liability on the balance sheet of any Person.

"Voting Shares" of any corporation shall mean shares of any class or classes (however designated) having ordinary voting power for the election of at least a majority of the members of the board of directors (or other governing bodies) of such corporation, including shares having such power by reason of the happening of any contingency.

"Working Capital" shall mean as of any date, the amount by which the Current Assets of Borrower and its Subsidiaries as of such date exceeds the Current Liabilities of the Borrower and its Subsidiaries, as of such date.

"Working Capital Credit Agreement" shall mean that certain Secured Credit Agreement, dated as of June 30, 1994, among the Borrower, Harris Trust and Savings Bank, individually and as Agent, and the other banks party thereto, as thereafter amended, modified or supplemented from time-to-time, together with any agreement governing Indebtedness incurred to refinance in its entirety the Indebtedness and commitments then outstanding or permitted to be outstanding under such Working Capital Credit Agreement.

1.02. Accounting Terms: Calculations. All accounting terms not specifically defined herein shall have the meanings generally attributed to such terms under GAAP. Calculations hereunder shall be made and financial data required thereby shall be prepared, both as to classification of items and as to amounts, in accordance with GAAP, consistently applied (except as otherwise specifically required herein).

1.03. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular.

1.04. Exhibits. All exhibits and schedules attached hereto are by reference made a part hereof.

ARTICLE II. REVOLVING LINE OF CREDIT

Lender hereby establishes the Line of Credit in favor of Borrower as follows:

2.01. Purpose. The purpose of this loan to Borrower is to advance funds to:

(a) pay off the balance of Borrower's obligations to John Hancock Mutual Life Insurance Company left owing and unpaid on that one certain promissory note dated February 1, 1988 in the original principal amount of Twenty Million Dollars (\$20,000,000.00) executed by Borrower and payable to the order of John Hancock Mutual Life Insurance Company, which promissory note and the Liens securing same shall be assigned to Lender;

(b) pay off the balance of Borrower's obligations to John Hancock Mutual Life Insurance Company left owing and unpaid on that one certain promissory note dated April 25, 1991 in the original principal amount of Five Million Dollars (\$5,000,000.00) executed by Borrower and payable to the order of John Hancock Mutual Life Insurance Company, which promissory note and the Liens securing same shall be assigned to Lender;

(c) to provide funds for Borrower on a revolving line of credit; and

(d) to fund Borrower's purchase of \$1,000.00 of Class-B Stock in Lender.

2.02. Loan Limit. The total of principal outstanding at any time under the Note shall not exceed (a) \$30,000,000.00, or (b) seventy-five percent (75%) of the Market Value of the Collateral, whichever is less.

2.03. Adjustments in Amount. If, at any time during the term of this Agreement, Borrower shall execute a new or amended Supplemental Loan Agreement, Lender may in its sole discretion as a requirement of such Supplemental Loan Agreement establish a lesser amount than that established under Section 2.02 above as the Loan Limit.

2.04. Revolving Commitment. The Line of Credit is a revolving line of credit, and prior to the termination of the Line of Credit under Section 2.05 of this Agreement or otherwise, repayments of principal shall reinstate the Commitment, and Borrower shall have the right to obtain further Advances provided that the amount outstanding at any one time does not exceed the Loan Limit and all conditions have been satisfied.

2.05. Term.

(a) The Line of Credit shall become effective as of the Closing Date. The Line of Credit shall continue in effect until the Expiration Date, which shall be the earlier to occur

of (i) April 1, 2003, (ii) the acceleration of the maturity of the Note upon the occurrence of an Event of Default, or (iii) the date on which Lender's obligation to fund Advances otherwise terminates hereunder. On the Expiration Date, any undisbursed amounts available under the Line of Credit shall expire and Lender shall not be obligated to make additional Advances. The Obligations as of the Expiration Date shall continue as the Obligations of Borrower in accordance with the terms and conditions of this Agreement until paid in full.

(b) Lender shall not be obligated to renew or extend the time for payment of the Note, or any Obligation past its stated maturity. Any agreement to renew or extend the Note must be in writing and executed by both parties. Any renewal or extension of the Note shall be subject to the terms and conditions of this Agreement, and any subsequent amendments, modifications thereto or replacements thereof.

(c) At the Expiration Date the Obligations shall be due and payable in full to Lender. The occurrence of an Event of Default or other termination of the Line of Credit shall not in any way release or relieve Borrower from its liabilities and obligations under this Agreement, the Note, or any other Loan Document, which liabilities and obligations shall remain in full force and effect until the Obligations have been paid in full.

2.06. Advances; Procedures. So long as Borrower is entitled to obtain an Advance under this Agreement, and subject to the terms and conditions set forth herein, Lender agrees to make such Advances of principal under the Line of Credit as Borrower may from time to time request. Advances shall be made in accordance with this Agreement and with any applicable policies and procedures of Lender unless Lender, in its sole discretion, waives the same in writing. Borrower shall give Lender notice of Borrower's request for the funding of an Advance in a form identical to that which is attached hereto as Exhibit "A". Not later than 1:00 p.m. (Texas time) on the date specified for an Advance, Lender shall make available to Borrower the amount of the Advance in immediately available funds at an account designated by Borrower, or in whatever form the parties agree to. Each notice requesting an Advance shall provide at least three (3) Business Days notice of a requested Advance. Each request for an Advance shall specify (a) the amount of such Advance, which shall be in increments of One Million Dollars (\$1,000,000.00) or more, unless there is less than \$1,000,000.00 which is unfunded under the Line of Credit, in which case all of the remaining Line of Credit may be drawn; (b) the date such Advance is requested, which shall be on a Business Day; (c) the then current unpaid principal balance of the Note; (d) the then current unused portion of the Line of Credit; (e) a certification that the requested Advance is allowed under this Agreement; (f) a certification that no Event of Default exists; and (g) a certificate that, as of the date of the request and immediately following Lender's Advance, there is no, and will be no, default or event which with the giving of notice or the passage of time would constitute an event of default under any loan, loan agreement, indenture, or agreement including, but not limited to, the Creditanstalt Agreement, the Working Capital Credit Agreement, the Subordinated Note Indenture or any Capital Lease; and (h) the signature of an authorized representative of Borrower.

2.07. Effect of Request. Each request by Borrower for an Advance shall, in and of itself, constitute a continuing representation and warranty by Borrower that: (a) Borrower then is, and at the time the Advance is actually made will be, entitled under this Agreement to obtain the Advance; (b) all of the covenants, agreements, representations and warranties made by Borrower in this Agreement and any Loan Documents are in all material respects true and correct and have been fully complied with, as of the date of the request; and (c) all of the representations set forth in the request are true and correct.

2.08. Interest. All principal amounts included in the Obligations, including Accrued Interest in Principal, shall bear interest at the Discount Rate plus 1.75%. Interest shall accrue on each Advance from the date of funding to the date of payment,

calculated on the actual number of days elapsed based upon a 365-day year or in the case of leap year, a 366-day year. Adjustments to the variable interest rate shall occur no more frequently than monthly and shall be effective on the first day of the month following Lender's determination to adjust the rate. There shall be no limitation on the amount by which Lender may adjust the rate.

2.09. Interest Savings Clause. It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply with applicable law governing the maximum rate or amount of interest payable on the Obligations. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under this Agreement, the Note or under any other Loan Document, or contracted for, charged, taken, reserved or received with respect to the Obligations, or if Lender's exercise of the option to accelerate the maturity of the Note or if any prepayment by Borrower results in Borrower having paid any interest in excess of that permitted by applicable law, then it is Borrower's and Lender's express intent that all excess amounts theretofore collected by Lender be credited on the principal balance of the Note (or if the Note and all other Obligations have been or would thereby be paid in full, refunded to Borrower), and provisions of the Note and the other Loan Documents shall be immediately deemed reformed and the amounts thereafter collectible hereunder or thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for under this Agreement and the Note, not exceeding the highest lawful amount of interest on the Obligations. All sums paid or agreed to be paid to Lender for the use, forbearance or detention of money shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of the Note until payment in full so that the rate or amount of interest on account of the Obligations does not exceed the usury ceiling from time-to-time in effect and applicable to the Note. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to demand payment of any interest that has not accrued at the time of acceleration or to collect unearned interest at the time of any acceleration.

2.10. Use of Proceeds. The proceeds of each Advance shall be used for general corporate purposes.

2.11. Payment. Each payment by Borrower to Lender pursuant to the Note and this Agreement shall be made prior to 1:00 p.m. (Central time) on the date due and shall be made without set-off or counterclaim to the Lender by delivering the amount due to the FCBT (for Lender's account), or at such other place as Lender may designate from time-to-time in writing to Borrower. Each such payment shall be in lawful currency of the United States of America and in immediately available funds. If the due date for any payment hereunder or under the Note would otherwise fall on a day which is not a Business Day, then such payment shall be due on the next succeeding Business Day and interest shall be payable on the principal amount of such payment for the period of such extension.

(a) The principal of this Note shall be due and payable in monthly installments payable on the first day of each calendar month beginning May 1, 1995 and continuing regularly and monthly thereafter until April 1, 2003 when the entire unpaid balance of principal and accrued interest shall be due and payable. Interest, computed on the unpaid principal balance of the Note, shall be due and payable monthly as it accrues on the same dates as, but in addition to, the installments of principal. If all or any amount due under the Note or any installment thereof is not paid when due, whether the amount is due by acceleration or otherwise, then at Lender's sole option, all accrued and unpaid interest shall be added to the principal balance, and interest shall accrue thereon at this applicable rate otherwise established in this Agreement or the Note.

(b) The monthly principal installment due under the Note shall equal the monthly payment of principal necessary to repay the then unpaid principal balance of the Note in equal

monthly installments as if the final monthly installment of principal was due on April 1, 2005. Notwithstanding any change in the amount of monthly installments due under the Note, on April 1, 2003, the entire amount of the Note, principal and interest then remaining unpaid, shall be then due and payable.

(c) The failure of the Lender to adjust the monthly principal payment following each Advance shall not affect the Expiration Date or result in the waiver or prejudice of Lender's right to establish a new monthly principal installment thereafter.

(d) Notwithstanding the forgoing, principal and accrued interest then remaining unpaid shall be due on the Expiration Date.

(e) If any date for payment of principal or interest under this Agreement is not a Business Day, then such payment shall be due on the next succeeding Business Day and interest shall be payable on the principal amount for the period of such extension.

2.12. Indemnity. Each request for an Advance shall be irrevocable and binding upon Borrower and Borrower agrees to and shall indemnify Lender against any and all costs, losses, or expenses incurred by Lender as a result of any failure of Borrower to fulfill on or before the Advance date specified in the notice of Advance, the conditions to such Advance set forth in this Agreement. Such indemnity is automatic and any amounts payable to Lender shall be immediately due and owing, which amounts include, without limitation, any cost, loss or expense incurred by Lender by reason of the liquidation or re-employment of assets or other funds acquired by Lender to fund the requested Advance.

2.13. Application of Payments. Payments shall be applied, within Lender's sole discretion, first to expenses reasonably incurred by Lender which are chargeable to Borrower under the terms of this Agreement, the Note, or any other Loan Document, then to accrued interest, and then to principal.

2.14. Evidence of Debt. The outstanding balance of the Obligations shall be recorded by Lender on its books and accounts from time to time. The Advance and payment of principal and the accrual and payment of interest shall be evidenced by notations made by Lender on its books, showing the date and amount of each Advance, accrual or payment. Upon written request by Borrower, Lender shall provide a written statement of the outstanding principal amount of the Note. The aggregate unpaid balance of the Obligations reflected on Lender's books shall be prima facie evidence of the correct balance and may be admitted into evidence in any legal proceeding arising between the parties for the purpose of establishing the principal and interest owing and unpaid under the Note, this Agreement and/or any other Loan Document.

2.15. Prepayment. Borrower has the right to prepay all or any part of the Note at any time without a prepayment penalty, provided that any such prepayment shall be in integral multiples of \$100,000.00.

2.16. Commitment Fees. Borrower agrees to pay to Lender a loan origination fee of \$150,000.00, \$75,000.00 of which was paid at the time of Lenders conditional commitment and the remaining \$75,000.00 of which shall be payable in full on or before the Closing Date. No portion of the loan origination fee is refundable or returnable to Borrower notwithstanding the prepayment of the Note or the termination of the Line of Credit prior to the Maturity Date.

ARTICLE III. COLLATERAL

3.01. Liens. Borrower agrees to grant Lender, as security for the Obligations, a first, prior, perfected and enforceable security interest and lien in all Collateral now owned or hereafter acquired.

3.02. Collateral. The Obligations are and shall be secured by the following:

(a) All of the Land;

(b) All of the Equipment;

(c) Lender's right to set off and apply toward payment of the Obligations (subject to the duty to provide simultaneous notice to, but without prior demand upon Borrower) any and all deposit balances and other sums of indebtedness owed or other property held by Lender for the account of Borrower, including all amounts currently in or hereafter deposited or contributed to, any Advance Conditional Payment Account with Lender;

(d) such other security or Collateral granted, assigned, or pledged by Borrower in favor of Lender whether granted of even date herewith or at any time hereafter; and.

(e) all additions, substitutions, accessions to, replacements for any of the above, and proceeds thereof.

3.03. Additional Documentation. Borrower shall, upon request, execute and deliver to Lender such additional documentation in form and content acceptable to Lender as and when Lender requests for the purpose of creating, documenting, transferring, assigning, delivering, or perfecting any interest in any Collateral contemplated by this Agreement. Until such time as Lender shall have perfected its security interest or lien, Borrower shall hold in trust for Lender all property or Collateral acquired by Borrower. Until the payment and satisfaction in full of the Obligations, Lender's Liens on the Collateral and all products and proceeds thereof shall continue in full force and effect. Lender may file one or more financing statements disclosing Lender's Liens under this Agreement without Borrower's signature appearing thereon and Borrower shall pay the costs of or expenses incidental to any recording or filing of any financing statements concerning Collateral. Borrower agrees that a copy of this Agreement is sufficient as a financing statement.

3.04. Right to Inspect. Lender (or any person or person designated by it), in its sole discretion, shall have the right to call at any place of business of Borrower or at any location where Collateral may be found at any reasonable time, and, without hinderance or delay, to inspect the Collateral and to inspect, review, check and make extracts of Borrower's books, records, journals, orders, receipts and any other correspondence and other data relating to the Collateral, to Borrower's business or to any other transactions between the parties hereto and to discuss any of the foregoing with any of Borrower's employees, officers and directors and with its independent accountants. Lender's right to inspect shall include the right of each Participant to join Lender in any such inspection, review, check and discussion.

3.05. Appraisals. Lender shall have the right and option to order, make or have made, new or updated appraisals on all or any part of the Collateral, which new or updated appraisals shall be at Borrower's sole expense. Provided, however, that Lender may only exercise said right or option (a) when necessary to comply with the Act, or (b) at reasonable intervals and when reasonably necessary.

ARTICLE IV. CONDITIONS PRECEDENT

4.01. General Conditions. Notwithstanding any other provision of this Agreement, it is understood that Lender shall have no obligation to fund the Note, unless and until the conditions set forth in this Section have been met to the sole and complete satisfaction of Lender and its counsel. Lender shall receive prior to, or at the time of Closing (or, if agreed to in writing by Lender, within a reasonable time after such execution), all of the following which shall be in form and substance reasonably satisfactory to Lender:

(a) Resolution of Borrower. A certified copy of the

resolution of the Board of Directors of Borrower authorizing the execution, delivery and performance of this Agreement, the Note, and other Loan Documents to which Borrower is a party;

(b) Articles of Incorporation; Bylaws. Certified Copies of the Articles of Incorporation, and Bylaws of Borrower;

(c) Certificate of Incumbency. A certificate of the Secretary of Borrower certifying the names of the officers of Borrower authorized to execute and deliver this Agreement, the Note, and other Loan Documents together with the true signatures of such officers;

(d) Officer's Certificate. A certificate of the Chief Executive Officer or Chief Financial Officer of Borrower to the effect that, based upon his review of this Agreement, the Note, and Loan Documents and the Officer's knowledge of the affairs of Borrower, all of the representations and warranties of Borrower contained herein are true and correct as of the date of this Agreement and further, the Officer has no actual knowledge of any Event of Default hereunder or under the Note, or under any Loan Document;

(e) Note. The Note, duly executed and delivered by Borrower;

(f) Compliance with Laws. Evidence which is satisfactory to Lender that Borrower is in compliance with all applicable Environmental Laws, regulations, policies, orders and permitting and licensing requirements to which Borrower, its operations or property, may be subject;

(g) Opinion of Borrower's Counsel. A satisfactory opinion from Borrower's counsel is given as to matters including, but not limited to, the legal existence of Borrower, the power and authority of Borrower to enter into the transaction contemplated by this Agreement, the enforceability of the Loan Documents, the validity, priority, and perfection of the Liens on the Collateral, a no consent opinion, a zoning compliance opinion, a "Senior Debt" opinion, and a no default opinion;

(h) Good Standing of Borrower. Evidence satisfactory to Lender has been presented showing Borrower's good standing and qualification to do business in all states in which Collateral is located;

(i) Appraisal. A satisfactory appraisal of the Collateral, acceptable to Lender in the exercise of its sole discretion, reflecting a Market Value which must provide for no more than a sixty percent (60%) loan-to-value ratio;

(j) Participant Commitments. Commitments from Participants sufficient to fund the Note without Lender exceeding its regulatory lending limit when aggregated with all other loans, commitments and/or leases made or participated in, by Lender;

(k) Prior Approval. Written approvals from the FCBT and North Texas Production Credit Association;

(l) Title Policies. Policies providing Title Insurance on that portion of the Collateral which represents real property, which policies (i) are in the minimum aggregate amount of \$15,000,00.00, (ii) in forms approved by the insurance regulatory authorities of Texas and Arkansas, and (iii) include exceptions only for the Permitted Liens.

(m) Environmental Studies. Environmental studies, audits and/or assessments on the Land as is necessary to reasonably assure Lender of the condition of such real property;

(n) Insurance Policies. Evidence satisfactory to

Lender that Borrower has obtained the insurance policies required by this Agreement and the Loan Documents;

(o) Fees. Evidence that all fees due and owing to Lender or any third party, if any, in connection with the execution of this Agreement and the establishment of the Line of Credit in favor of Borrower have been paid in full to Lender;

(p) Audited Financial Statements. A certified copy of Borrower's most recent audited financial statement prepared by an independent and nationally recognized auditing firm of certified public accountants which is a member in good standing of the American Institute of Certified Public Accountants and which is acceptable to Lender;

(q) Loan Agreement. This Agreement duly executed by those officers authorized to execute and deliver it;

(r) Loan Documents. Each of the other Loan Documents duly executed by those officers authorized to execute and deliver same;

(s) Litigation. A certificate executed by a duly authorized officer of Borrower stating that no litigation, investigation or proceeding before or by any arbitrator, governmental authority or any other Person is continuing or threatened against Borrower or any of its officers, directors or affiliates (i) with respect to this Agreement, the Note or any other Loan Documents, or any of the transactions contemplated hereby or thereby, or (ii) which could have a Material Adverse Effect. Lender shall also receive either a summary and analysis of all litigation in which Borrower is involved or an opinion of counsel, in form and substance acceptable to Lender, to the effect that no litigation in which Borrower is involved would, in the event of an adverse determination, have a Material Adverse Effect;

(t) Filing of Loan Documents. Each Loan Document required under law or requested by Lender to be filed, registered or recorded in order to create, in favor of Lender or for the benefit of Lender, a perfected first Lien on the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Lender shall have received an acknowledgement copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(u) Transfer of John Hancock Notes and Liens. The promissory notes executed by Borrower to John Hancock Mutual Life Insurance Company, dated February 1, 1988 and April 25, 1991 and in the original principal amounts of \$20,000,000.00 and \$5,000,000.00 respectively, together with the Liens securing same, are transferred to Lender in a manner satisfactory to Lender.

(v) Operating Budget. Financial projections and/or a pro forma operating budget reasonably demonstrating the ability of Borrower to remain in compliance with the covenants, agreements and conditions set forth in this Agreement, together with consolidated interim financial statements of Borrower and its Subsidiaries for the period from October 1, 1994 to February 28, 1995, each consisting of a consolidated balance sheet, consolidated statement of income (loss), consolidated statement of changes in stockholders' equity and consolidated statement of cash flows, all of which shall be true and correct in all material respects and contain no material misrepresentation or omission, and fairly represent the consolidated financial position, assets and liabilities of Borrower and its Subsidiaries as of the date thereof; and

(w) Other Information. Such other information and documents as may reasonably be required by Lender and Lender's counsel.

4.02. Specific Conditions to Each Advance. Notwithstanding any other provision of this Agreement, it is understood that the obligation of the Lender to make any Advance under this Agreement, (including the initial Advance) and the right of Borrower to request any such Advance shall be subject to the following conditions precedent:

(a) No Defaults. As of the date of the making of such Advance, there shall exist no Default, Event of Default or Possible Default. Lender is not obligated to make an Advance if the funding of such an Advance would result in an Event of Default.

(b) Compliance with Agreement. Borrower and Guarantor shall have performed and complied with all agreements, covenants and conditions contained herein and in each of the Loan Documents;

(c) No Material Adverse Change. As of the date of making such Advance, no change that would cause a Material Adverse Effect has occurred since the date of the financial statements referenced in Section 5.04;

(d) Request for Advance. Lender shall have received from Borrower a request for Advance in the form of Exhibit "A" in accordance with the provisions of Section 2.06 of this Agreement;

(e) Representations and Warranties. The representations and warranties contained in Article V hereof and in each of the Loan Documents shall be true in all respects on the date of making of such Advance, with the same force and effect as though made on and as of that date;

(f) Financial Statements. All of the reporting requirements in Section 8.02 hereof have been satisfied. Moreover, the most recent financial statements of Borrower and Guarantor delivered to Lender shall be true and correct, fairly represent the financial condition of Borrower and Guarantor and shall have been prepared in accordance with GAAP; as of the date of such Advance, there shall be no obligations, liabilities or Indebtedness (including contingent and indirect liabilities and obligations or unusual or forward or long-term commitments) of Borrower and Guarantor, which are (separately or in the aggregate) material and are not reflected in such financial statements;

(g) Bankruptcy Proceedings. No proceeding or case under the United States Bankruptcy Code shall have been commenced by or against Borrower or Guarantor;

(h) Compliance with Laws. Borrower, Guarantor and each Subsidiary shall be in compliance with all applicable Environmental Laws, regulations, policies, orders and permitting and licensing requirements to which each such Person or Person's operations or property may be subject;

(i) No Injunction. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any Court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain substantial damages in respect of, or which is related to or arises out of this Agreement, or which in Lender's sole discretion, would make it inadvisable to fund any such Advance;

(j) Regulatory Restrictions. Borrower and Guarantor shall not be subject to any applicable statute, rule, regulation, order, writ or injunction of any court or governmental authority or agency which would materially restrict or hinder the conduct of Borrower's business, or

which would have a Material Adverse Effect on the business, property, assets, operations or conditions, financial or otherwise, of Borrower or Guarantor; and

(k) No Default on Other Indebtedness. Borrower is not in default, and will not be in default following the making of an Advance, under the terms of any other loan, loan agreement, indenture, or agreement including, but not limited to, the Creditanstalt Agreement, the Working Capital Credit Agreement, the Subordinated Notes Indenture, or any Capital Lease.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

As of the date of this Agreement and on the date of each request for an Advance, Borrower and Guarantor hereby each represent and warrant to Lender, which representations and warranties will survive the creation of the Obligations and any extension of credit thereunder the following matters. Each representation and warranty shall be true and correct on the Closing Date and on the date of each Advance and shall continue to be true and correct until the Obligations have been repaid in full:

5.01. Corporate Existence and Qualification. Borrower and each of its Subsidiaries are duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Borrower is duly qualified as a foreign corporation in good standing in the state of Texas and in each other state wherein the conduct of its business or the ownership of its property requires such qualification and each Subsidiary is duly qualified as a foreign corporation in good standing in each jurisdiction wherein the conduct of its business or the ownership of its property requires such qualification.

5.02. Corporate Authority. Borrower and each of its Subsidiaries have the corporate power under their respective charters, articles of incorporation and bylaws to enter into this Agreement, the Note, and all the Loan Documents. The execution and delivery by Borrower and the performance by Borrower of the Obligations under this Agreement, the Note, and the Loan Documents have been duly authorized by all requisite corporate action on the part of Borrower and do not and will not violate any provision of any law, rule or regulation, any judgment, order or ruling of any court or governmental agency, the organizational papers or bylaws of Borrower or any of its Subsidiaries, or any indenture, agreement or other instrument to which Borrower or any of its Subsidiaries is a party or by which Borrower or any of their respective assets is or are bound.

5.03. Enforceability. This Agreement, the Note and all the Loan Documents, when executed and delivered, are or will be the legal, valid and enforceable obligations of Borrower and Guarantor, enforceable against each of them in accordance with their respective terms.

5.04. Financial Statements.

(a) The financial statement of Guarantor dated September 1, 1994, the consolidated financial statements of Borrower and its Subsidiaries for Fiscal Years ending October 1, 1994 and October 2, 1993, and the Form 10-Q certified by the Chief Financial Officer for the Fiscal Quarter ending December 30, 1994, and Borrower's unaudited financial statements for Fiscal Year to date as of February 25, 1995, each consisting of a consolidated balance sheet, consolidated statement of income (loss), consolidated statement of changes in stockholders' equity and consolidated statement of cash flows, copies of which have been delivered to Borrower to Lender, are true and correct in all respects and contain no misstatement or omission, and fairly present the consolidated financial position, assets and liabilities of Borrower, its Subsidiaries and Guarantor as of the date thereof, and the consolidated results of operations of Borrower and its Subsidiaries for the period then ended, and as of the date thereof there are no liabilities of Borrower, any of the

Subsidiaries or Guarantor, fixed or contingent, which are material that are not reflected in such financial statements;

(b) Since the date of the financial statements referred to in Subsection (a) there has been no material adverse change in the assets, liabilities, financial position or results of operations of Borrower, any of the Subsidiaries or Guarantor, and neither Borrower, any of its Subsidiaries or Guarantor has (i) incurred any obligation, liability, fixed or contingent, which would have a Material Adverse Effect, (ii) incurred any Indebtedness or obligations under any Capital Lease other than the obligations and trade payables and other liabilities arising in the ordinary course of Borrowers, Guarantors or such Subsidiary's business, or (iii) guaranteed the Indebtedness of any other Person.

5.05. Performance of Other Obligations. Borrower, the Subsidiaries and Guarantor are not a party to any agreement, instrument, or corporate restructure which could have a Material Adverse Effect on the operations of Borrower, any Subsidiary or Guarantor, or their respective abilities to perform the Obligations under this Agreement and the Loan Documents.

5.06. Absence of Litigation. There is no action, suit, investigation or proceedings pending or, to the knowledge of Borrower, threatened against or affecting Borrower, Guarantor, or any Subsidiary by or before any court, arbitrator or administrative or governmental body, which might result in a Material Adverse Effect in the business, financial condition or operations of Borrower, Guarantor, or any Subsidiary or the enforceability of this Agreement, the Note, or any Loan Document, except as set forth in the attached Schedule 5.06.

5.07. Absence of Default. Neither Borrower, any Subsidiary, nor Guarantor are in default nor has any event or circumstance occurred which, but for the passage of time or the giving of notice, or both, could constitute default hereunder or under any agreement to which either is a party, including agreements for the borrowing of money, the Creditanstalt Agreement, the Working Capital Credit Agreement, the Subordinated Notes Indenture, or any regulation order, writ, judgment, injunction, decree or determination or award by any court or governmental agency which default could Materially Adversely Effect the business or financial condition of Borrower, Guarantor, or any Subsidiary. Borrower, Guarantor, and each Subsidiary have satisfied all final and non-appealable judgments and are not in default with respect to any judgment, writ, injunction, decree, or order of any court, arbitrator or other governmental authority.

5.08. Title and Liens. Borrower has and shall continue to have good title and ownership to all Collateral. All of the Collateral is subject to a first priority Lien in favor of Lender, perfected to the extent required by Lender, and none of the Collateral is subject to any Lien or other encumbrance other than to Lender and other than the Permitted Liens.

5.09. Loan Documents Duly Executed. Each Loan Document is genuine and valid, has been duly executed, endorsed or assigned by each person or entity whose execution, endorsement or assignment is essential to the validity and Lender's enforceability thereof, has been duly filed or recorded, and each Loan Document constitutes, against all persons whomsoever, a valid and legally enforceable Lien upon or in the property described therein, of the rank and character represented by Borrower and Guarantor.

5.10. Compliance with Laws. Borrower, Guarantor and each Subsidiary is substantially in compliance with all federal and state regulations, rules, directives, and orders, and all other agreements, permits, licenses, certificates, laws, rules, regulations, orders and writs concerning or relating to the right of Borrower or a Subsidiary to conduct its business and to own the assets which it presently owns, and Borrower, Guarantor and the Subsidiaries are not aware of being under investigation by any federal agency or any state or local agency for any reason. Borrower, Guarantor, and the Subsidiaries are not subject to any cease and desist order or other enforcement action taken by any regulatory agency.

5.11 Consent. No consent, permission, authorization, order or license of any governmental authority or other lender is necessary in order to execute or have enforced, this Agreement or any Loan Document.

5.12. Use of Proceeds. The proceeds of the Note will be used for general corporate purposes.

5.13 Taxes. Borrower, Guarantor, and all Subsidiaries have filed all tax returns required to be filed and paid all taxes shown thereon to be due, or have obtained from appropriate governmental authorities extensions for the filing of such returns or the making of such payments, including interest and penalties, or provided adequate reserves for payment thereof, except for any such tax, assessment, charge, levy or claim, the payment of which is being contested in good faith and by proper proceedings.

5.14 Knowledge of Environmental Laws. Borrower is aware that the Line of Credit may be terminated or suspended by Lender for Borrower's failure to comply at all times in every material respect with the Environmental Laws. Borrower shall keep itself informed as to, and in compliance with, any changes in the Environmental Laws as they may be amended from time to time. Borrower agrees and acknowledges that Lender shall have no duty to keep Borrower informed of any changes in the Environmental Laws.

5.15. Broker's or Finder's Fees. No broker's or finder's fees or commissions have been incurred or will be payable by Borrower, any Subsidiary, or Guarantor to any Person in connection with the transactions contemplated by this Agreement.

5.16. Regulatory Matters. Borrower is not subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Federal Power Act, the Interstate Commerce Act or any other federal or state statute or regulation which materially limits its ability to incur indebtedness or its ability to consummate the transactions contemplated by the Agreement.

5.17. Disclosure. Neither this Agreement, nor any other Loan Document, instrument, agreement, financial statement or certificate furnished to Lender or any Participant by or on behalf of Borrower in connection with this Agreement contained an untrue statement of fact or omits to state any fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or omits to state any fact which, insofar as Borrower can now foresee, may in the future have a Material Adverse Effect on the condition (financial or otherwise) of the business, operation or properties of Borrower, any Subsidiary, or Guarantor which has not been set forth in this Agreement or in an instrument, document, agreement, financial statement or certificate furnished to Lender in connection herewith.

5.18. ERISA. Except as disclosed on Schedule 5.18 attached hereto and incorporated herein by reference:

(a) Identification of Plans. Neither the Borrower nor any ERISA Affiliate maintains or contributes to or has maintained or contributed to, any Plan or Multiemployer Plan that is subject to regulation by Title IV of ERISA;

(b) Compliance. Each Plan has at all times been maintained, by its terms and in operation, in accordance with all applicable laws, except for such noncompliance (when taken as a whole) that will not have a Material Adverse Effect on Borrower, or any of its Subsidiaries;

(c) Liabilities. Neither the Borrower, any Subsidiary, nor any ERISA Affiliate is currently or to the best knowledge of Borrower or any ERISA Affiliate will become subject to any liability (including withdrawal liability), tax or penalty whatsoever, to any Person whomsoever with respect to any Plan, including, but not limited to, any tax, penalty or liability arising under Title I or Title IV of ERISA or Chapter 43 of the Internal Revenue Code;

(d) Funding. The Borrower, its Subsidiaries, and each ERISA Affiliate have made full and timely payment of (i) all amounts required to be contributed under the terms of each Plan and applicable law and (ii) all material amounts required to be paid as expenses of each Plan. No Plan has any "amount of unfunded benefit liabilities" (as defined in 4001(a)(18) of ERISA); and

(e) Insolvency: Reorganization. No Plan is insolvent (within the meaning of 4245 of ERISA) or in reorganization (within the meaning of 4241 of ERISA).

5.19. Solvency. Giving effect to the execution and delivery of the Loan Documents and the consummation of the Line of Credit contemplated hereby and taking into account all other Indebtedness and obligations of Borrower, Borrower (i) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage, (ii) is able to pay its debts as they mature and (iii) owns property whose fair, saleable value is greater than the amount required to pay its debts.

5.20. Corporate and Trade or Fictitious Names. During the five (5) years immediately preceding the date of this Agreement, neither Borrower nor Guarantor nor any of their respective predecessors have been known as or used any corporate, trade or fictitious name other than their current names and except as disclosed on Schedule 5.20 hereto.

5.21. Equipment. The Equipment (i) is and shall remain in good condition, normal wear and tear excepted, (ii) meets and shall meet all standards imposed by any governmental agency, or department or division thereof having regulatory authority over such Equipment and its use and (iii) is currently useable and shall remain useable in the normal course of Borrower's business.

5.22. Investments. Except as set forth in Schedule 5.22 hereof, Borrower has no Subsidiaries and has no interest in any partnership or joint venture with, or any investment in, any Person.

5.23. Trade Relations. There exists no actual or, to the best of Borrower's knowledge, threatened termination, cancellation or limitation of, or any modification or change in, the business relationship of Borrower or any Subsidiary with any supplier or with any company whose contracts with Borrower or a Subsidiary, individually or in the aggregate are material to the operations of Borrower or a Subsidiary; after the consummation of the transactions contemplated by this Agreement and to the best knowledge of Borrower, all such companies and suppliers will continue a business relationship with Borrower and the Subsidiaries on a basis materially no less favorable to Borrower than that heretofore conducted; and there exists no condition or state of facts or circumstances which would have a Material Adverse Effect on Borrower or any Subsidiary or prevent Borrower or any Subsidiary from conducting its business after the consummation of the transactions contemplated by this Agreement in essentially the same manner in which it has heretofore been conducted.

5.24. Registration Statement. No portion of any registration statement filed with the Securities and Exchange Commission or the prospectus relating thereto, or any other written material filed with said commission relating to the Borrower or its business, does or will contain any statement which is false or misleading with respect to any fact, or does or will omit to state a fact necessary in order to make the statements therein not false or misleading or otherwise violate any state or federal securities laws.

5.25. Survival of Representations and Warranties. All representations and warranties by Borrower and Guarantor herein shall survive delivery of the Note and the making of the Advances hereunder and any investigation at any time made by or on behalf of Lender or the Participants shall not diminish Lender's right to rely on such representations and warranties.

5.26. No Financing of Corporate Takeovers. No proceeds of the Line of Credit or any other Advance under the terms of this Agreement will be used to acquire any security in any transaction

which is subject to 13 or 14 of the Securities Exchange Act of 1934, including particularly (without limitation) 13(d) and 14(d) thereof.

5.27. Chief Executive Office; Collateral Locations. Borrower's chief executive office and office where it keeps all of its books and records is located at 110 S. Texas St., Pittsburg, Texas 75686 and except as set forth on Schedule 5.27 attached hereto, Borrower has not had any other chief executive office or principal place of business outside the state of Texas during the four (4) months preceding the Closing Date. Schedule 5.27 attached hereto and incorporated herein by reference sets forth a true, correct and complete list of all places of business and all locations at which Collateral is located.

5.28. Casualties. Neither the business nor the properties of Borrower or any Subsidiary are affected by any Hazardous Substance, strike, lockout or other labor dispute, embargo or other casualty (whether or not covered by insurance), which could have a Material Adverse Effect.

5.29. Hazardous Substances. The Collateral is free from "Hazardous Substances" and no portion of the Land is subject to federal, state or local regulation or liability because of the presence of stored, leaked or spilled petroleum products, waste materials or debris, "PCB's" or PCB items (as defined in 40 C.F.R. 761.3), underground storage tanks, "asbestos" (as defined in 40 C.F.R. 763.63) or the past or present accumulation, spillage, release or leakage of any such substance, except as specifically set forth on Schedule 5.29 attached hereto.

5.30. Use of Proceeds; Margin Stock. The proceeds of the Line of Credit will be used by Borrower for general corporate purposes. None of such proceeds will be used for the purpose of purchasing or carrying any "margin stock" or "margin security" as those terms are used or defined in the Securities Exchange Act of 1934 (specifically U.S.C. 78(d)) or the regulations issued pursuant thereto, or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry any "margin stock". Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stocks or margin securities. Neither Borrower nor any Person acting on behalf of Borrower has taken or will take any action which might cause the Note or any of the other Loan Documents, including this Agreement, to violate Section 8 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, as such is now in effect or as same may hereafter be in effect. Borrower and the Subsidiaries, on a consolidated basis, own no "margin stock" or "margin security" except for that described in the financial statements referred to in Section 5.04 hereof, the aggregate value of all such "margin stock" and "margin security" owned by Borrower and the Subsidiaries, when consolidated does not exceed twenty five percent (25%) of the value of all of Borrower's and Subsidiary's assets.

ARTICLE VI. NEGATIVE COVENANTS

Borrower and Guarantor covenant with Lender that from and after the date hereof and until the termination of this Agreement and the payment and satisfaction in full of the Obligations they will not, and they will not permit any Subsidiary to, without the prior written consent of Lender:

6.01. Borrowing Limit. Exceed the Loan Limit.

6.02. No Encumbrances. Create, assume or suffer to exist a Lien of any kind on any of the Collateral except for Permitted Liens. No easements, rights of way, restrictions or other similar encumbrances which, in the aggregate or separately, interfere with the occupation, use, and enjoyment by Borrower of any portion of the Collateral or which materially impairs the value of any portion of the Collateral, shall be created, assumed or suffered to exist.

6.03. Asset Sales.

(a) Sell, lease or dispose of any of the Collateral or any interest therein. Provided, however, that Borrower may sell Equipment which is no longer used or useful in the business of Borrower or any Subsidiary, if (i) such Equipment has a Market Value of less than \$1,000,000.00, (ii) all Equipment sold or to be sold within any Fiscal Year has an aggregate Market Value of less than \$5,000,000.00, (iii) any Equipment sold or otherwise disposed of pursuant to this clause is replaced within ninety (90) days after such sale or other disposition by replacement Equipment which is in good operating condition and which has a value and utility at least equal to that of the Equipment sold or disposed of and the Lender receives, for the benefit of Lender, a valid, perfected, first Lien with respect to such replacement Equipment, subject only to Permitted Liens, and (iv) all proceeds received from the sale or other disposition of the Equipment are delivered to Lender.

(b) Sell, lease or otherwise transfer any assets other than the Collateral, except: (i) in the ordinary course of business; (ii) as permitted by Section 6.10 hereof; (iii) transfers to the Borrower or a Subsidiary; (iv) worn or obsolete property; or (v) any other sale or transfer of assets, which, together with all other assets sold or transferred during the preceding twelve month period (other than in accordance with the preceding causes (i), (ii), (iii) and (iv)) does not exceed fifteen percent (15%) of the Fair Value of Borrower's total consolidated assets (excluding Intangible Assets), whether such assets are now owned or hereafter acquired, and as computed at the time of such sale or transfer.

6.04. Corporate Structure; Liquidation; Mergers; Consolidations; and Dispositions of Substantial Assets. Dissolve or otherwise terminate its corporate status; enter into any merger, reorganization or consolidation; issue any shares of any class of capital stock of any Subsidiary or any securities or other instruments which are convertible into any shares of any class of capital stock of any Subsidiary; make any substantial change in the basic type of business conducted by Borrower or any Subsidiary as of the date hereof; dissolve Borrower or any Subsidiary; liquidate Borrower or any Subsidiary; become a party to any merger or consolidation (except as expressly permitted in this Section); acquire by purchase, lease or otherwise, all or substantially all of the assets or capital stock of any Person; sell, transfer, lease or otherwise dispose of all or any substantial part of Borrower's or any Subsidiary's property, assets or business. Provided, however, that the foregoing shall not operate to prevent:

(a) mergers or consolidations of any Subsidiary into Borrower or a sale, transfer or lease of assets by any Subsidiary to Borrower; or

(b) a merger of any Person into Borrower if (i) Borrower shall be the surviving or continuing corporation, (ii) after giving effect to such merger or consolidation Borrower shall be in full compliance with this Agreement, (iii) the management of Borrower shall be substantially unchanged and, (iv) the merger or consolidation does not involve, concern or transfer all or a substantial part of the property and assets of Borrower and its Subsidiaries. For this purpose the term "substantial part" shall mean more than fifteen percent (15%) of such property compared to the total assets of Borrower and the Subsidiaries.

6.05. Fiscal Year. Change its fiscal year.

6.06. ERISA. Take, or fail to take, or permit any ERISA Affiliate to take, or fail to take, any action with respect to a Plan including, but not limited to, (a) establishing any Plan, (b) amending any Plan, (c) terminating or withdrawing from any Plan, or (d) incurring an amount of unfunded benefit liabilities, as defined in Section 4001 (a)(18) of ERISA where such action or failure could have a Material Adverse Effect on the Borrower or any Subsidiary, result in a lien on the property of the Borrower or any Subsidiary, or require

the Borrower or any Subsidiary to provide any security.

6.07. Relocations: Use of Name. Relocate its executive office; maintain any Collateral at any location other than that set forth on Schedule 5.27 hereto or maintain records with respect to Collateral at any locations other than at the location of its chief executive office set forth in Section 5.____ hereto; or use any corporate name (other than its own) or any fictitious name except upon thirty (30) days prior written notice to Lender and after the delivery to Lender of financing statements, if required by Lender, in a form satisfactory to Lender.

6.08. Arm's Length Transactions. Enter into any transaction, including without limitation, the purchase, sale, lease or exchange of any Collateral, or the rendering of any service, with any Affiliate of the Borrower or any Subsidiary or any Person except as permitted by Section 6.03 hereof and upon fair and reasonable terms not materially less favorable to the Borrower than would be obtained in a comparable arms'-length transaction with a Person not an Affiliate of the Borrower or such Subsidiary and which would be subject to approval by the Borrower's Audit Committee of the Board of Directors. Provided, however, that Borrower may make those Affiliate transactions, and continue and increase said Affiliate transactions, described in Borrower's proxy statement in connection with its February 1, 1995 annual meeting, which statement is attached hereto as Schedule 6.08.

6.09. Dividends. Declare or pay any dividends on, or make any distribution with respect to, its shares of any class of capital stock, redeem or retire any capital stock, or take any action having an effect equivalent to the foregoing (in any Fiscal Year of Borrower or any Subsidiary) except for (a) the declaration and payment of cash dividends by a Subsidiary and payable to Borrower and (b) the declaration and payment of cash dividends on the capital stock of the Borrower not in excess of the greater of (i) \$2,300,000.00 in any Fiscal Year, and (ii) \$0.09 per share of the issued and authorized common stock plus twenty-five percent (25%) of the net income of Borrower, as set forth in the audited financial statements for the Fiscal Year of Borrower immediately preceding the year during which such declaration and payment of dividends is made; provided, however, that at the time such dividend is paid there does not exist any Default or Event of Default hereunder or any event or condition which, with the payment of such dividend would constitute a Default or Event of Default.

6.10. Subordinated Notes. Take any action, directly or indirectly to:

(a) purchase, redeem, retire or otherwise acquire for value, set apart any money for a sinking, defeasance or other analogous fund for, the purchase, redemption, retirement or other acquisition of, or make any voluntary payment or prepayment of the principal of, or interest on, or any other amount owing in respect of, the Subordinated Notes other than regularly scheduled payments of interest thereon; or

(b) agree to any amendment, modification or waiver of any of the provisions of the Subordinated Note Indenture.

6.11. Other Extraordinary Events. Take any of the following actions:

(a) Purchase or otherwise acquire or become obligated for the purchase of all or a substantial part of the assets of any Person, not to exceed 15% of the total assets of Borrower, except for property acquired as a result of a loan workout or liquidation or except as expressly contemplated herein, where the purchase, acquisition, or obligation would have a Material Adverse Effect on Borrower's financial condition or financial condition of any Subsidiary; or;

(b) Materially change its general business purpose or take any action with a view towards the same including entering into new lines of business (which are materially different from, and unrelated to, the lines of business being conducted by it on the Closing Date) or change materially the

nature of the business conducted by it from those being conducted by it on the Closing Date.

6.12. No Amendments. Amend or modify Borrower's charter, articles of incorporation or by-laws.

6.13. Issuance of Shares. Issue, sell or otherwise dispose of, any shares of Borrower's capital stock or other securities, rights, warrants or options to purchase, or acquire any share of securities, which would have the effect of reducing the capital stock of Borrower owned by Lonnie "Bo" Pilgrim to less than 51% of the total issued and outstanding shares of voting capital stock of the Borrower.

ARTICLE VII. FINANCIAL COVENANTS

Borrower and Guarantor covenant with the Lender that from and after the Closing Date and until the termination of this Agreement and the payment and satisfaction in full of the Obligations, unless the Lender otherwise consents in writing:

7.01 Leverage Ratio. Borrower shall not permit its Leverage Ratio at the end of any Fiscal Quarter to exceed 0.675: 1.00.

7.02. Tangible Net Worth. Borrower shall maintain a Tangible Net Worth at all times during each period specified below of not less than the amount specified below for such period:

(a) For the period from the Closing Date through the next to last day of Fiscal Year 1995, \$100,000,000;

(b) For the period from the last day of Fiscal Year 1995 to the next to last day of said Fiscal Year, \$100,000,000.00, plus 25% of Borrower's consolidated net income (but not less than zero) for Borrower's Fiscal Year 1995; and

(c) For the successive periods commencing on the last day of each Fiscal Year thereafter and ending on the next to last day of the next succeeding Fiscal Year, with the first such period commencing on the last day of Fiscal Year 1996, an amount equal to the minimum required Tangible Net Worth in effect under this Section 7.02 during the immediately preceding period plus 25% of Borrower's consolidated net income (but not less than zero) for Borrower's Fiscal Year ending on the date the applicable period commences.

7.03. Current Ratio. Borrower shall maintain at all times and as of the last day of each Fiscal Quarter, a Current Ratio of not less than 1.40 to 1.00.

7.04. Fixed Charge Coverage Ratio. Borrower shall not, on the last day of any Fiscal Quarter, permit its Fixed Charge Coverage Ratio to be less than 1.35 to 1.00 for the period of the last eight consecutive Fiscal Quarters of Borrower ending on such day.

7.05. Minimum Working Capital. Borrower shall maintain at all times Working Capital as of the end of each Fiscal Quarter in an amount equal to or greater than \$50,000,000.00.

ARTICLE VIII. AFFIRMATIVE COVENANTS

Borrower and Guarantor covenant and agree that until all of the Obligations have been paid in full and this Agreement has been terminated, Borrower and Guarantor shall comply, and shall cause each Subsidiary to comply, with all of the following provisions, unless Lender otherwise gives its prior written consent:

8.01. Records Respecting Collateral. Keep all records with respect to the Collateral at its office set forth in Section 5.27 hereof and not remove such records from such address without the prior written consent of Lender.

8.02 Reporting Requirements. Furnish or cause to be furnished to Lender and each Bank:

(a) As soon as practicable, and in any event within 45 days after the end of each Fiscal Quarter, consolidated interim unaudited financial statements, including a balance sheet, income statement and statement of cash flow, for the Fiscal Quarter and year-to-date period then ended, prepared in accordance with GAAP, consistent with the past practice for Borrower and its Subsidiaries, and certified as to truth and accuracy thereof by the chief financial officer of Borrower;

(b) As soon as available, and in any event within 90 days after the end of each Fiscal Year, consolidated audited annual financial statements, including a consolidated balance sheet, consolidated statement of income, consolidated statement of shareholders' equity and consolidated statement of cash flow for the Fiscal Year then ended, prepared in accordance with GAAP, in comparative form and accompanied by the unqualified opinion and certification of a nationally recognized firm of independent certified public accountants regularly retained by Borrower and its Subsidiaries and acceptable to Lender;

(c) As soon as available, and in any event within 90 days after the end of each calendar year, annual financial statements of Guarantor, in a form acceptable to Lender;

(d) Together with the annual financial statements referred to in clause (b) above a statement from such independent certified public accountants that, in making their examination of such financial statements, they obtained no knowledge of any Default or Event of Default or, in lieu thereof, a statement specifying the nature and period of existence of any such Default of Event or Default disclosed by their examination;

(e) Together with the annual or interim financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer of Borrower certifying that, to the best of his knowledge, no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto;

(f) Promptly after the sending or filing thereof, as the case may be, copies of any definitive proxy statements, financial statements or reports which Borrower or any Subsidiary sends to its shareholders and copies of any regular periodic and special reports or registration statements which Borrower or any Subsidiary files with the Securities and Exchange Commission (or any governmental agency substituted therefor), including, but not limited to, all Form 10-K and Form 10-Q reports, or any report or registration statement which Borrower or any Subsidiary files with any national securities exchange;

(g) At least fifteen (15) Business Days prior to the time any consent by Lender will be necessary, Borrower and any Subsidiary shall furnish to Lender all pertinent information regarding any proposed acquisition by Borrower or any Subsidiary to which the consent of Lender is required hereunder which is reasonably necessary or appropriate to permit Lender to evaluate such acquisitions in a manner consistent with prudent lending standards;

(h) Together with the annual and interim financial statements referred to in clauses (a) and (b) above, and if requested by Lender, a certificate of the chief financial officer of Borrower certifying (i) the items of Equipment subject to purchase money Liens permitted by clause (e) of the definition of "Permitted Liens" and (ii) the principal amount of Indebtedness secured by each such Lien; and

(i) Such other information respecting the condition or operations, financial or otherwise, of Borrower, Guarantor,

and the Subsidiaries as Lender may from time-to-time reasonably request.

8.03. Tax Returns. File all federal, state and local tax returns and other reports that Borrower, Guarantor, and the Subsidiaries are required by law to file; maintain adequate reserves for the payment of all taxes, assessments, governmental charges and levies imposed upon them, their respective incomes, or their respective profits, or upon any property belonging to them; and pay and discharge all such taxes, assessments, governmental charges and levies prior to the date on which penalties attach thereto.

8.04. Compliance with Laws. Comply with all laws, statutes, rules, regulations and ordinances of any governmental entity, or of any agency thereof, applicable to Borrower, Guarantor, or any Subsidiary, a violation of which, in any respect, might have a Material Adverse Effect, including, without limitation, any such laws, statutes, rules, regulations or ordinances regarding the collection, payment, and deposit of employees' income, unemployment, Social Security taxes and with respect to pension liabilities.

8.05. ERISA.

(a) At all times make prompt payment of contributions required to meet the minimum funding standards set forth in Section 302 and 305 of ERISA with respect to each Plan and otherwise comply with ERISA and all rules and regulations promulgated thereunder in all material respect;

(b) Promptly after the occurrence thereof with respect to any Plan, or any trust established thereunder, notify Lender of (i) a "reportable event" described in Section 4043 of ERISA and the regulations issued from time-to-time thereunder (other than a "reportable event" not subject to the provisions of 30-day notice to the PBGC under such regulations), or (ii) any other event which could subject the Borrower, any of its Subsidiaries or any ERISA Affiliate to any tax, penalty or liability under Title I or Title IV of ERISA or Chapter 43 of the Internal Revenue Code which, in the aggregate, would have a Material Adverse Effect on the Borrower, any of its Subsidiaries or upon their respective financial condition, assets, business operations, liabilities or property;

(c) At the same time and in the same manner as such notice or application must be provided to the PBGC, or to the Plan participant, beneficiary or alternative payee, give Lender any notice or application required or permitted under Section 101(d), 302(f)(4), 303, 307, 4041(b)(1)(A) or 4041(c)(1)(A) of ERISA or under Section 401(a)(29) or 412 of the Internal Revenue Code with respect to any Plan;

(d) Furnish to Lender promptly upon the request of Lender (i) true and complete copies of any and all documents, government reports and determination or opinion letters for any Plan; and (ii) a current statement of withdrawal liability, if any, for each Multiemployer Plan; and

(e) Furnish to Lender, promptly upon the request of the Lender therefor, such additional information concerning any Plan that relates to the ability to make any payments hereunder, as may be reasonably requested.

8.06. Books and Records. Keep adequate records and books of account with respect to its business activities in which proper entries are made in accordance with GAAP reflecting all its financial transactions.

8.07. Notifications to Lender. Notify Lender by telephone within one (1) Business Day (with each such notice to be confirmed in writing within two (2) Business Days following such telephone notice): (a) upon Borrower's learning thereof, of any litigation affecting Borrower or any of its Subsidiaries claiming damages of \$5,000,000 or more, individually, or when aggregated with other litigation pending against Borrower or any of its Subsidiaries, if not covered by

insurance, and of the threat or institution of any suit or administrative proceeding against Borrower or any of its Subsidiaries which may have a Material Adverse Effect on Borrower or any of its Subsidiaries, or Lender's Lien in the Collateral, and establish such reasonable reserves with respect thereto as Lender may request; (b) upon learning thereof, of any Possible Default or Event of Default hereunder; (c) upon occurrence thereof, of any change to the operations, financial condition or business of Borrower or any of its Subsidiaries which would have a Material Adverse Effect; (d) upon the occurrence thereof, of any amendment or modification of the Working Capital Credit Agreement and/or the Creditanstalt Agreement; and (e) upon the occurrence thereof, of Borrower's or any Subsidiary's default under (i) any note, indenture, loan agreement, mortgage, lease, deed or other similar agreement relating to any indebtedness of Borrower or any of its Subsidiaries or (ii) any other instrument, document or agreement material to the operations or condition, financial or otherwise, of Borrower or any of its Subsidiaries to which Borrower or any of its Subsidiaries is a party or by which Borrower or any of its Subsidiaries or any of their respective property is bound.

8.08. Insurance.

(a) Keep all the Collateral, whether now owned or hereafter acquired, insured by insurance companies (i) reasonably acceptable to Lender or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the State of Texas, against loss or damage by fire or other risk usually insured against under extended coverage endorsements and theft, burglary, and pilferage, together with such other hazards that Lender may from time to time reasonably request, in amounts reasonably satisfactory to Lender and naming Lender as loss payee thereon pursuant to a lender's loss payee clause satisfactory to Lender;

(b) Keep all of its property other than the Collateral, whether now owned or hereafter acquired, insured by insurance companies (i) reasonably acceptable to Lender or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the State of Texas and in all jurisdictions in which such Borrower does business against such risks and in such amounts as are customarily maintained by others in similar businesses, provided, however, that Borrower may self insure with respect to any such casualties, risks or losses with respect to property other than the Collateral if borrower can reasonably satisfy Lender that Borrower is able to self insure for same;

(c) Maintain at all times liability insurance coverage against such risks and in such amounts as are customarily maintained by others in similar businesses, such insurance to be carried by insurance companies (i) reasonably acceptable to Lender or having an A or better rating according to Best's Insurance Reports; Property-Casualty and (ii) licensed to do business in the state of Texas and in all jurisdictions in which such Borrower does business, provided, however, that Borrower may self insure against any such liability risks if Borrower is able to reasonably satisfy Lender that it is capable of self insuring against such risks; and

(d) Deliver certificates of insurance for such policy or policies to Lender containing endorsements, in form satisfactory to Lender, providing that the insurance shall not be cancelable, except upon thirty (30) days' prior written notice to Lender.

8.09. Preservation of Corporate Existence. Preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation.

8.10. Equipment. Keep and maintain the Equipment in good operating condition, reasonable wear and tear excepted; repair and make all necessary replacements thereof so that the operating efficiency thereof shall at all times be maintained and preserved; and

shall not permit any item of Equipment to become a fixture to real estate or accession to other personal property unless Lender has a first priority Lien on or in such real estate or other personal property. Borrower shall, upon Lender's reasonable written demand, and within ten (10) days of such demand, made in compliance with the terms of this Agreement, deliver to Lender, any and all evidence of ownership of any of the Equipment.

8.11. Preservation of Collateral. Keep and maintain the Collateral in good operating condition, reasonable wear and tear excepted; and repair and make all necessary replacements thereof so that the operating efficiency thereof shall at all times be maintained and preserved.

8.12. Repayment. Repay the Obligations to Lender as and when same becomes or is declared due pursuant to the terms of this Agreement.

8.13. Conduct of Business. Keep all property (real or personal) free from contamination by any Hazardous Substance that could subject the property to remedial obligations under any Environmental Laws or otherwise violate such laws.

8.14. Examination. Allow such examinations and audits as may reasonably be required by Lender. Borrower shall permit Lender (and any Participant accompanied by a representative of Lender) to make, from time-to-time, examinations and audits of Borrower's records, books, and accounts and inspect, examine or conduct such reviews as Lender may reasonably wish to make. All examination, audits or reviews shall be conducted during Borrower's regular business hours.

8.15. Good Title to Collateral. Maintain and preserve good title to all Collateral, subject only to the Permitted Liens.

8.16. Take Actions to Create Security Interests and Liens. Take, or cause to be taken, all actions reasonably required by Lender in order to create, perfect, and continue Liens in the Collateral including, but not limited to, executing, delivering and filing any financial statement, security agreement, pledge or other documents as may be reasonably requested by Lender. Borrower shall do all such additional and further acts, give such assurances, and execute such statements as Lender may request to vest in Lender its rights under this Agreement, the Note, and all Loan Documents.

8.17. Compliance with Loan Documents. Promptly comply with any and all covenants of the Loan Documents.

8.18. Authorizations and Approvals. Promptly obtain, from time-to-time, at its own expense, all such governmental licenses, authorizations, consents, permits and approvals as may be required to enable it to comply with its obligations hereunder and under the Loan Documents.

ARTICLE IX. EVENTS OF DEFAULT

The occurrence of any one or more of the following events will constitute an Event of Default under this Agreement:

9.01. Failure to Pay. Borrower shall fail to repay the Obligations or any portion thereof as and when due or declared due pursuant to the terms of this Agreement.

9.02. Failure to Perform Under Financial Covenants. Borrower and Guarantor has (a) breached or failed to perform any financial covenant contained in Article VII hereof, and (b) has failed or refused to cure such breach or failure of performance on or before the earlier to occur of (i) the expiration of thirty (30) calendar days from the date written notice of such breach or failure is given to Borrower, or (ii) the date Borrower knew or should have known of such default.

9.03. Failure to Perform Other Obligations. Borrower and Guarantor or any Subsidiary shall default in the performance of any of

the covenants or agreements of Borrower or any Subsidiary contained herein, or in any of the other Loan Documents, other than any failure to perform under any of the financial covenants contained in Article VII hereof.

9.04. Misrepresentations. Borrower and Guarantor shall make any representations or warranties in any of the Loan Documents or in any certificate or statement furnished at any time hereunder or in connection with any of the Loan Documents which proves to have been untrue or misleading in any material respect when made or furnished.

9.05. Other Debts. Borrower, Guarantor, or any Subsidiary shall default in the payment when due of any Indebtedness under any guaranty, note, indenture or other agreement relating to or evidencing Indebtedness having a principal balance of \$1,000,000.00 or more, including, but not limited to, the Subordinated Notes, any Indebtedness under the Working Capital Credit Agreement and any Indebtedness under the Creditanstalt Agreement; or any event specified in any guaranty, note, indenture or other agreement relating to or evidencing any such Indebtedness shall occur and continue for more than the period of grace, if any, specified therein; or any such Indebtedness shall become due before its stated maturity by acceleration of the maturity thereof; or any such Indebtedness shall become due by its terms and shall not be promptly paid or extended.

9.06. Tax Lien. A notice of Lien, levy or assessment is filed of record with respect to all or any of Borrower's or any Subsidiary's assets by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, including, without limitation, the PBGC, which in the opinion of Lender adversely affects the priority of the Liens granted to Lender.

9.07. ERISA. The occurrence of any of the following events: (a) the happening of a Reportable Event with respect to any Plan which Reportable Event could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a Material Adverse Effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (b) the disqualification or involuntary termination of a Plan for any reason which could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a Material Adverse Effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (c) the voluntary termination of any Plan while such Plan has a funding deficiency (as determined under Section 412 of the Internal Revenue Code) which could result in a material liability for Borrower, any of its Subsidiaries or an ERISA Affiliate or which otherwise could have a Material Adverse Effect on the financial condition, assets, business, operations, liabilities or property of Borrower, any of its Subsidiaries or such ERISA Affiliate; (d) the appointment of a trustee by an appropriate United States district court to administer any such Plan; (e) the institution of any proceedings by the PBGC to terminate any such Plan or to appoint a trustee to administer any such Plan; (f) the failure of Borrower to notify Lender promptly upon receipt by Borrower or any of its Subsidiaries of any notice of the institution of any proceeding or other actions which may result in the termination of any such Plan.

9.08. Voluntary Bankruptcy. Borrower, Guarantor, or any Subsidiary shall: (a) file a voluntary petition or assignment in bankruptcy or a voluntary petition or assignment or answer seeking liquidation, reorganization, arrangement, readjustment of its debts, or any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether State, Federal, or foreign, now or hereafter existing; (b) enter into any agreement indicating consent to, approval of, or acquiescence in, any such petition or proceeding; (c) apply for or permit the appointment, by consent or acquiescence, of a receiver, custodian or trustee of Borrower, Guarantor, or any Subsidiary or for all or a substantial part of its property; (d) make a general assignment for the benefit of creditors; or (e) be unable or shall fail to pay its debts generally as such debts become due, admit in writing its inability or failure to pay its debts generally as such debts become due, or otherwise become

insolvent.

9.09. Involuntary Bankruptcy. There shall have been filed against Borrower, Guarantor, or any Subsidiary an involuntary petition in bankruptcy or seeking liquidation, reorganization, arrangement, readjustment of its debts or any other relief under the Bankruptcy code, or under any other act or law pertaining to insolvency or debtor relief, whether State, Federal or foreign, now or hereafter existing; Borrower, Guarantor, or any Subsidiary shall suffer or permit the involuntary appointment of a receiver, custodian or trustee of Borrower, Guarantor, or any Subsidiary or for all or a substantial part of its property; or Borrower, Guarantor, or any Subsidiary shall suffer or permit the issuance of a writ of attachment, execution or similar process against all or any substantial part of the property of Borrower, Guarantor, or any Subsidiary.

9.10. Suspension of Business. The suspension of the transaction of the usual business of the Borrower or of the usual business of any of its Subsidiaries or the involuntary dissolution of the Borrower or the involuntary dissolution of any of its Subsidiaries.

9.11. Judgments. Any judgment, decree or order for the payment of money which, when aggregated with all other judgments, decrees or orders for the payment of money pending against Borrower or any of its Subsidiaries or Guarantor, exceeds the sum of \$2,000,000.00, shall be rendered against Borrower, Guarantor, or any Subsidiary and remain unsatisfied and in effect for a period of sixty (60) consecutive days without being vacated, discharged, satisfied, stayed or bonded pending appeal.

9.12. Change in Control. There occurs a "Change in Control" as such term is defined on the date hereof in the Subordinated Notes Indenture.

9.13. Failure to Comply with Environmental Laws. Failure of Borrower in good faith to substantially comply with the Environmental Laws lawfully applicable to Borrower, or to correct, or take action reasonably satisfactory to Lender to correct any material deficiency or weakness identified in any audit, and such failure shall continue for a period of thirty calendar days after there shall have been given to Borrower by Lender a notice specifying such failure and requiring it to be remedied.

ARTICLE X. REMEDIES UPON DEFAULT

Upon the occurrence of any Event of Default, Lender may at its option, exercise any one or more of the following remedies, in addition to all other rights and remedies provided by law, or otherwise provided by this Agreement, or any other Loan Document, all of which rights and remedies shall be cumulative and not exclusive:

10.01. Notice and Request for Cure. In cases where notice and an opportunity to cure are not otherwise required under Article IX of this Agreement, Lender may provide Borrower with written notice of the existence of the Event of Default with a request for Borrower to cure, or take action sufficient to cure the Event of Default within a specified time period. Except as may be otherwise provided in Article IX, notice and opportunity to cure shall not be required to establish the existence of an Event of Default or the right of Lender to exercise any of the remedies contemplated by this Article X. Except as provided in Section 9.02 hereof, Borrower specifically waives any notice of presentment, notice of intent to accelerate, notice of default or Possible Default, demand, notice of acceleration, and notice of protest.

10.02. Default Interest Rate. To the extent authorized by interest rate policies established by Lender, Lender may charge Borrower an increased rate of interest until any portion of the Obligations which is past due is paid or otherwise brought current, which interest may be applied to the entire Obligations and which shall not exceed the Default Rate. Borrower and Guarantor waive any prior notice of the applicability of the Default Rate.

10.03. Reports/Reviews/ Examinations. Lender may require Borrower and/or Guarantor to submit such additional reports or other information as Lender reasonably determines necessary and/or increase the frequency or broaden the scope of any Lender review or examination under Sections 3.04 and/or 8.14 hereof.

10.04. Action Plan. Lender may require Borrower to submit to Lender a plan for corrective action reasonably acceptable to Lender.

10.05. Supplemental Loan Agreement. Lender may, as a condition to its waiver of an Event of Default, require Borrower to enter into a new Supplemental Loan Agreement or to amend any existing Supplemental Loan Agreement containing such terms and conditions as Lender deems necessary or appropriate.

10.06. Payment of Proceeds. Lender may require Borrower to pay to Lender immediately upon Borrower's receipt thereof, all proceeds, payments, and income from all Collateral.

10.07. Offset. Lender may set off against and apply toward the payment of the Obligations all deposit balances or other property of Borrower and/or Guarantor held by Lender, if any, or other amounts owing by Lender to Borrower and/or Guarantor.

10.08. Termination and Acceleration of Loan. Lender may, at its sole option, (a) suspend or terminate any obligation to Advance funds under the Line of Credit, and/or (b) accelerate the maturity of all principal outstanding on the Obligations and accrued interest thereon, and make demand for immediate payment thereof, without the necessity of prior recourse to any Collateral.

10.09. Take Possession of Equipment. Lender may (a) enter upon any place or places where the Equipment is located and kept, through self-help and without judicial process, without first obtaining a final judgment or giving Borrower notice and opportunity for a hearing on the validity of Lender's claim and without any obligation to pay rent to Borrower, and remove the Equipment therefrom to the premises of Lender or any agent of Lender for such time as Lender may desire, in order to effectively collect or liquidate the Equipment and/or (b) require Borrower to assemble the Equipment and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both Borrower and Lender.

10.10. Resort to Collateral. Lender may resort to and realize upon all or part of the Collateral in such order and manner as Lender may elect in order to satisfy all or any part of the Obligations outstanding, either in its own name or in the name of Borrower as Borrower's attorney-in-fact, and Borrower hereby appoints Lender as its attorney-in-fact, with full power of substitution, to take any action in Borrower's name or on its behalf, as Lender may reasonably deem necessary or appropriate to resort to or realize upon the Collateral in accordance with this Agreement. Except where prohibited by law, such actions shall include, but not be limited to, actions (a) to sell Collateral at public or private sale, or otherwise dispose of Collateral, (b) to service, modify, renew, or preserve the same, and (c) to receive proceeds of Collateral and to apply such proceeds to the Obligations in such manner as Lender may elect. If Lender chooses to realize upon Collateral, Borrower and Guarantor shall remain liable for any deficiency remaining after application of proceeds to the Obligations. Lender shall have the right to purchase at any sale of Collateral.

10.11. Proceed Against Borrower and/or Guarantor. Lender may, without the necessity of prior recourse to any Collateral, proceed directly against Borrower and/or Guarantor to collect the Obligations and enforce this Agreement.

10.12. Appointment of Trustee, Conservator, or Receiver. Lender may request the appointment of a trustee, conservator, receiver or liquidator in accordance with applicable law.

10.13. Remedies Under Deed of Trust. Lender may sell or otherwise dispose of all or any of the Land or Equipment, in a manner provided for in the Deed of Trust and exercise all other rights and remedies available to Lender under the Deed of Trust.

10.14. Notice. Any notice required to be given by Lender of the sale, lease, other disposition of the Collateral or any other intended action by Lender, may be given ten (10) days prior to such proposed action and shall constitute commercially reasonable and fair notice thereof to Borrower and/or Guarantor.

ARTICLE XI. FEES, CHARGES, AND EXPENSES

11.01. Obligation to Pay. Borrower and Guarantor agree to pay the reasonable expenses incurred by Lender in connection with the following:

(a) Any attempt to enforce or protect any rights of Lender against Borrower and/or Guarantor under the terms of this Agreement following an Event of Default or any attempt to defend against any claims or counterclaims by or on behalf of Borrower and/or Guarantor in any litigation arising out of this Agreement, to the extent that Lender is successful, on the merits or otherwise; and/or

(b) The inspection, verification, protection, preservation, collection, sale, administration, liquidation, or other disposition of Collateral following an Event of Default; and/or

(c) The perfection of any security interest in Collateral granted by Borrower to Lender under this Agreement, or any Loan Document.

11.02. Expenses Included. As used in this Article, the term "reasonable expenses" shall include, without limitation, reasonable fees, charges and expenses for in-house and outside attorneys and accountants, in-house and outside inspections and appraisals of Collateral (including environmental audits and appraisals), fees for in-house or outside title and lien verification, costs of sale including advertising, repair, and amelioration or abatement of environmental hazards, recording fees, and court costs.

11.03. When Payable. Borrower shall be obligated to pay Lender's reasonable expenses upon demand and this obligation shall be part of the Obligations.

ARTICLE XII. MISCELLANEOUS

12.01. Waivers. The failure of Lender at any time to require strict compliance with any provision of this Agreement shall not affect Lender's continuing right thereafter to require compliance. Any suspension or waiver by Lender of an Event of Default shall not affect any other Event of Default and Lender's remedies with respect thereto, regardless of when said Event of Default occurs and the nature of said Event of Default. Any waiver, suspension, or consent by Lender with respect to Borrower's compliance with this Agreement must be in writing signed by Lender and shall be limited to the extent set forth therein.

12.02. Amendments. Neither this Agreement nor any of the Loan Documents may be amended except in writing, signed by all parties to this Agreement.

12.03. Assignment. This Agreement shall bind and inure to the benefit of Borrower, Guarantor and Lender, and their respective Affiliates, successors, permitted assigns, heirs and legal representatives. Borrower shall not assign, in whole or in part, this Agreement or any of the rights, duties, or obligations of Borrower under this Agreement. Any such assignment or attempted assignment shall be void and of no effect with respect to Lender.

12.04. Execute Other Documents. Borrower hereby agrees to execute such other agreements, documents or instruments as reasonably requested by Lender in connection with this Agreement and to take such actions as Lender may reasonably deem necessary to carry out the purposes hereof.

12.05. Notices. All notices and other communications required or permitted to be given hereunder shall be given in writing and shall be personally delivered or sent by registered or certified United States mail return receipt requested, postage prepaid, addressed as follows (or to such other address as to which any party to this Agreement shall have given the other parties hereto written notice):

If to Lender:

Stephen R. Ogletree, President
Agricultural Production Credit Association
P.O. Box 120010
Tyler, TX 75712

If to Borrower:

Pilgrim's Pride Corporation
Attn: Cliff Butler, Vice-Chairman of
the Board and Chief Financial Officer
P.O. Box 93
Pittsburg, TX 75686

If to Guarantor:

Lonnie "Bo" Pilgrim and
Patty Redding Pilgrim
P.O. Box 93
Pittsburg, TX 75686

All notices hereunder shall be deemed given when actually delivered in person or three (3) Business Days after having been deposited in the United States mail, in accordance with the foregoing, as applicable.

12.06. Severability. If any part of this Agreement shall be adjudged invalid or unenforceable, whether in general or in any particular circumstance, then such partial invalidity or unenforceability shall not cause the remainder of this Agreement to be or to become invalid or unenforceable, and if a provision hereof is held invalid or unenforceable in one or more of its applications said provision shall remain in effect in all valid applications that are severable from the invalid or unenforceable application(s). This Agreement shall be interpreted so as to give effect and validity to all of the provisions of this Agreement to the fullest extent permitted by law.

12.07. Governing Law and Venue. Except to the extent that federal law is applicable, this Agreement and the rights and obligations of the parties hereunder shall, in all respects, be governed by and construed in accordance with the laws of the State of Texas. Issues with respect to perfection and foreclosure of liens in Collateral shall be determined in accordance with the laws of the state where the Collateral is located as of the Closing Date. Venue for any action between Lender, Borrower and/or Guarantor shall be in Smith County, Texas.

12.08. Section Headings. The section headings of this Agreement are inserted herein solely for convenience of reference and do not constitute a part of this Agreement and shall not affect the construction or interpretation of the provisions hereof.

12.09. Entire Agreement. This Agreement, the Note, and the Loan Documents constitute the entire agreement among the parties hereto with respect to the subject matter hereof, and supersede all prior written and oral agreements pertaining hereto.

12.10. Construction. In the event of any inconsistency in the terms of the Note, or any of the Loan Documents, and this Agreement, the terms of this Agreement shall control. Should any provision of this Agreement require judicial interpretation, the parties hereto agree that the court interpreting or construing the same shall not apply a presumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that a document is to be more strictly construed against the party who itself or through its agents prepared the same, it being

agreed that Borrower, Guarantor, Lender and their respective agents have participated in the preparation hereof.

12.11. Remittance. Any remittance in payment of any Obligations or liability of Borrower to Lender made by check, draft, or other instrument calling for payment of money shall be received by Lender subject to final payment in cash or solvent credits. Any and every other bank or agency to or through which such a check, draft or other instrument may be forwarded by Lender to obtain such final payment, shall be deemed to be the agent of Borrower which hereby assumes all risks of insolvency, negligence, or default for any reason of any bank or other agency to or through which the check, draft, or other instrument may be forwarded by Lender and any loss arising therefrom shall be borne by Borrower. Borrower assumes the risk and expense of insurance on all valuables it sends to Lender.

12.12. Regulatory Change. Lender's performance under any provision of this Agreement shall be excused for the periods of time during which such performance is prevented due to any Regulatory Change.

12.13. Time of the Essence. Time shall be of the essence in the performance of all of Borrower's obligations under this Agreement, the Note, the Loan Documents and any related documents as applicable.

12.14. Counterparts. This Agreement may be executed in several counterparts, each of which shall be regarded as the original and all of which shall constitute one and the same Agreement.

12.15. Attorney-in-Fact. Borrower hereby appoints as its attorney-in-fact the president, any vice president, the treasurer, any assistant vice president or any assistant treasurer of Lender to endorse in the name of and in behalf of Borrower any instrument, check, draft or commercial paper that may be delivered to Lender by Borrower. This power of attorney shall not be revoked as long as there exists any Obligations owed by Borrower to Lender.

12.16. Intellectual Property License. Lender is hereby granted a non-exclusive, assignable license or other right to use, without charge, Borrower's copyrights, patents, patent applications, designs, rights of use, or any property of a similar nature, whether owned by Borrower or with respect to which Borrower has rights under license, sublicense or other agreements (collectively, the "Intellectual Property Rights"), to the extent such Intellectual Property Rights are necessary for the proper operation of, or are used by Borrower in the operation of, the Collateral. Such license (a) may only be used in connection with the operation of the Collateral, (b) shall terminate upon the payment in full of the Obligations, and (c) shall become perpetual (and shall survive the termination of this Agreement) upon the transfer of any of the Collateral in foreclosure of Lender's Liens in such Collateral, whether such foreclosure is by right of private sale, judicial sale, deed in lieu, retention in satisfaction of the Obligations or otherwise. Borrower agrees, at the request of Lender, to take any and all action sand to execute, deliver and/or record any and all instruments, documents, licenses or agreements, as may be necessary or appropriate to confirm the foregoing license and/or evidence such license in any public record.

12.17. Participations.

(a) Lender may, in the ordinary course of its lending business and in accordance with the Act, at any time sell to one or more Participant participating interests in the Note. Borrower agrees that each Participant shall be entitled to the indemnity benefits of Sections 2.12 and 12.19 with respect to its participation; provided that no Participant shall be entitled to receive any greater amount pursuant to such Section than Lender would have been entitled to receive if no such transfer to the Participant occurred;

(b) The sale of a participating interest in the Note to a Participant shall operate as an assumption by the Participant of the duty and obligation to fund a corresponding percentage of the Commitment, thus releasing Lender and all other Participants from any duty, liability or obligation to

fund said percentage of the Commitment;

(c) Lender may disclose to any Participant and any prospective Participant any and all financial information in Lender's possession concerning Borrower, Guarantor and/or the Collateral;

(d) In the event Lender distributes all or any portion of its net earnings to its Borrowers at any time during the term of this Loan under a patronage refund program, any such distribution to Borrower shall be calculated only on that portion of the Note retained by Lender and which is not made the subject of any participation.

12.18. Expense Reimbursement. Borrower agrees to reimburse Lender for all of the Lender's expenses incurred in connection with the development, preparation, execution, delivery, modification, regular review and administration of this Agreement, the Note and the Loan Documents, including audit costs, appraisal costs, the cost of searches, filings and filing fees, taxes and fees and disbursements of Lender's attorneys, excluding any and all costs incurred by any Participant in connection with Section 12.17.

12.19. Indemnity. In addition to any other indemnity provided for herein, or in the other Loan Documents, Borrower and Guarantor hereby, jointly and severally, indemnify Lender from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Lender in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person (other than Borrower or Guarantor) with respect to (a) any aspect of, (b) any act of negligence related to, (c) any strict liability related to, (d) any transaction contemplated by or referred to in, and/or (e) any matter related to, this Agreement or the other Loan Documents, or the other transactions contemplated hereby, whether or not Lender is a party thereto, except to the extent that any of the foregoing arises out of the gross negligence or willful misconduct of Lender. Borrower's and Guarantor's obligations under this Section shall survive the termination of this Agreement and the repayment of the Note, and shall be triggered immediately when a third-party claim is asserted and shall apply regardless of whether any judicial determination of liability is made.

12.20. Termination Statements. Borrower acknowledges and agrees that it is Borrower's intent that all financing statements filed hereunder shall remain in full force and effect until this Agreement shall have been terminated in accordance with the provisions hereof, even if, at any time or times prior to such termination, no Obligations shall be outstanding hereunder. Accordingly, Borrower waives any right which it may have under Section 9.404 of the Texas Business and Commerce Code to demand the filing of termination statements with respect to the Collateral, and agrees that the Lender shall not be required to send such termination statements to Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid in full in immediately available funds. Upon such termination and payment in full, Lender shall execute appropriate termination statements and deliver the same to Borrower.

12.21. Non-liability of Lender. The relationship between Borrower and Lender is, and shall at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility or duty to Borrower or Guarantor to review, inspect, supervise, pass judgment upon, or inform Borrower or Guarantor of any matter in connection with any phase of Borrower's business, operations or condition, financial or otherwise. Borrower and Guarantor shall rely entirely upon their own judgment with respect to such matters, and any review, inspection, supervision, exercise of judgment, or information supplied to Borrower by Lender in connection with any such matters is for the protection of Lender, and neither Borrower nor Guarantor nor any third party is entitled to rely thereof.

12.22. Article 5069-15.01, et seq. Borrower and Lender

hereby agree that the provisions of Article 5069-15-01 et seq. of the Revised Civil Statutes of Texas, as amended (regulating certain revolving credit loans and revolving tri-party accounts) shall not apply to this Agreement, the Note or the other Loan Documents.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the 27th day of March, 1995.

LENDER:

AGRICULTURAL PRODUCTION
CREDIT ASSOCIATION

Name: Stephen R. Ogletree
Title: President

BORROWER:

PILGRIM'S PRIDE CORPORATION

Name: Lonnie "Bo" Pilgrim
Title: Chief Executive Officer

Name: Cliff Butler
Title: Chief Financial Officer

GUARANTORS:

Lonnie "Bo" Pilgrim

Patty Redding Pilgrim

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