

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO  
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PILGRIM'S PRIDE CORPORATION  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	2015 (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	75-1285071 (I.R.S. EMPLOYER IDENTIFICATION NO.)
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110 SOUTH TEXAS STREET PITTSBURG, TEXAS 75686 (903) 855-1000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)	LONNIE "BO" PILGRIM 110 SOUTH TEXAS STREET PITTSBURG, TEXAS 75686 (903) 855-1000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PURSUANT TO RULE 429 UNDER THE SECURITIES ACT OF 1933, THE PROSPECTUS INCLUDED IN THIS REGISTRATION STATEMENT IS A COMBINED PROSPECTUS RELATING ALSO TO REGISTRATION STATEMENT NO. 33-61160 PREVIOUSLY FILED BY THE REGISTRANT ON FORM S-1 AND DECLARED EFFECTIVE ON JULY 9, 1993. THIS AMENDMENT NO. 2 TO FORM S-1 ALSO CONSTITUTES AMENDMENT NO. 2 TO POST-EFFECTIVE AMENDMENT NO. 1 TO REGISTRATION STATEMENT NO. 33-61160, AND SUCH POST-EFFECTIVE AMENDMENT NO. 1, AS AMENDED, SHALL HEREAFTER BECOME EFFECTIVE CONCURRENTLY WITH THE EFFECTIVENESS OF THIS REGISTRATION STATEMENT AND IN ACCORDANCE WITH SECTION 8(C) OF THE SECURITIES ACT OF 1933.

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 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +  
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +  
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +  
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +  
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +  
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +  
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +  
 +ANY SUCH STATE. +  
 ++++++

SUBJECT TO COMPLETION, DATED JULY 18, 1997

PROSPECTUS  
, 1997

6,261,382 SHARES

LOGO  
COMMON STOCK

All of the shares of common stock, par value \$0.01 per share ("Common Stock"), offered hereby (the "Offering") are being sold by certain stockholders (the "Selling Stockholders") of Pilgrim's Pride Corporation (the "Company"). The Company will not receive any part of the proceeds from the sale of the shares by the Selling Stockholders. See "Principal and Selling Stockholders."

The Common Stock is traded on the New York Stock Exchange under the symbol "CHX." The last reported sale price of the Common Stock on the New York Stock Exchange on July 17, 1997 was \$11 7/8 per share. See "Price Range of Common Stock and Dividends."

SEE "RISK FACTORS" BEGINNING ON PAGE 9 FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO THE PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO THE SELLING STOCKHOLDERS(2)
Per Share.....	\$	\$	\$
Total(3).....	\$	\$	\$

- (1) See "Underwriting" for indemnification arrangements with the Underwriters.
- (2) Before deducting expenses estimated at \$250,000 payable by the Selling Stockholders; provided that if the Underwriters exercise their over-allotment option, a pro rata portion of such expenses shall be payable by the Company based upon the relative number of shares of Common Stock sold by the Company and the Selling Stockholders.
- (3) The Company has granted the Underwriters a 30-day option to purchase up to 939,207 additional shares of Common Stock, on the same terms as set forth above, solely to cover over-allotments, if any. If such option is exercised in full, the total Price to the Public and Underwriting Discounts and Commissions will be \$ and \$ , respectively, and the proceeds to the Company therefrom will be \$ . See "Underwriting."

The shares of Common Stock are being offered in the Offering by the several Underwriters when, as and if delivered to and accepted by the Underwriters and subject to various prior conditions, including their right to reject orders in whole or in part. It is expected that delivery of the shares will be made in New York, New York on or about , 1997.

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

A.G. EDWARDS & SONS, INC.

[Four Color Art To Come]

#### AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 under the Securities Act of 1933, as amended (the "Securities Act"), of which this Prospectus is a part, with respect to the Common Stock offered hereby. This Prospectus omits certain information contained in the Registration Statement, and reference is made to the Registration Statement for further information with respect to the Company and the Common Stock offered hereby. Statements contained herein concerning the provisions of documents are necessarily summaries of such documents and when any such document is an exhibit to the Registration Statement, each such statement is qualified in its entirety by reference to the copy of such document filed with the Commission. Copies of the Registration Statement may be obtained upon payment of the prescribed fees or examined without charge at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements, and other information with the Commission. Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the following Regional Offices of the Commission: Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies can also be obtained at prescribed rates from the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, such materials filed electronically by the Company with the Commission are available at the Commission's World Wide Web Site at <http://www.sec.gov>.

The Common Stock is listed on the New York Stock Exchange. Reports, proxy statements and other information concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

#### REFERENCE DATA

Industry, market and market share information contained herein is based on information appearing in publicly available reports. The Company has not independently verified such information.

#### FORWARD-LOOKING INFORMATION

This Prospectus contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Prospectus, the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. Actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed in "Risk Factors."

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CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SPECIFICALLY, THE UNDERWRITERS MAY OVER-ALLOT IN CONNECTION WITH THE OFFERING AND MAY BID FOR AND PURCHASE SHARES OF THE COMMON STOCK IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by and should be read in conjunction with the more detailed information and Consolidated Financial Statements and notes thereto included in this Prospectus. Investors should carefully consider the information set forth under "Risk Factors." Unless otherwise indicated herein, the information contained in this Prospectus assumes that the Underwriters' over-allotment option will not be exercised. The term the "Company" or "Pilgrim's Pride" refers to Pilgrim's Pride Corporation and its subsidiaries, unless the context otherwise requires.

### THE COMPANY

Pilgrim's Pride is one of the largest producers of prepared and fresh chicken products in North America and has one of the best known brand names in the chicken industry. The Company is the fourth largest producer of chicken in the United States and one of the two largest in Mexico. Through vertical integration, the Company controls the breeding, hatching and growing of chickens and the processing, preparation, packaging and sale of its product lines. In fiscal 1996, approximately 80% of the Company's net sales were from its U.S. operations, including U.S. produced chicken products sold for export to Canada, Eastern Europe, the Far East and other world markets, with the remaining 20% arising from the Company's Mexico operations.

The U.S. chicken industry has grown from 9.0 billion pounds produced in 1976 to 26.1 billion pounds in 1996, a compounded annual growth rate of 5.5%. This growth was in response to both domestic and international demand. In the U.S., annual per capita consumption of chicken grew from 42.5 pounds in 1976 to 71.7 pounds in 1996 while per capita consumption of beef and pork declined. Per capita consumption of chicken in the U.S. surpassed that of pork in 1982 and beef in 1992. Exports of U.S. produced chicken have also increased from 3.2% of production in 1976 to 16.9% in 1996. Management believes these trends will continue in the foreseeable future.

In the U.S., the Company is the second largest full-line supplier of chicken products to the foodservice market, which is principally comprised of chain restaurant operations, frozen entree producers, institutions and distributors. The majority of the Company's sales to this market consists of prepared food products, which include portion-controlled breast fillets, tenderloins and strips, formed nuggets and patties and bone-in chicken parts. These products are sold frozen and may be either fully cooked or uncooked. Primarily as a result of growth in the Company's sales of prepared food products to this market, Company sales to the foodservice market from fiscal 1992 through fiscal 1996 grew at a compounded annual growth rate of 10.2%. Based on industry data, the Company estimates that total industry dollar sales to the foodservice market during this same period grew at a compounded annual growth rate of 7.6%. The Company also sells fresh chicken products to the foodservice market and the retail market, the latter consisting primarily of grocery store chains and retail distributors.

In Mexico, the Company has made significant capital investments to modernize its production technology, completed strategic acquisitions and transferred experienced management personnel in order to be a low-cost producer of chicken. Management believes that this low-cost producer strategy has resulted in increased market share and higher profit margins relative to most other Mexican chicken producers and has positioned the Company to participate in the anticipated growth in Mexican chicken demand. According to an industry source, annual per capita consumption of chicken in Mexico increased from an estimated 22 pounds in 1982 to an estimated 34 pounds in 1996. Management anticipates that Mexican chicken consumption will grow as the Mexican economy continues to strengthen.

The Company's objectives are to increase sales, profit margins and earnings and outpace the growth of the chicken industry (i) by focusing on growth in the prepared food products market, (ii) by focusing on growth in

the Mexico market and (iii) through greater utilization of the Company's existing assets. Key elements of the Company's strategy to achieve these objectives are to:

- . Focus U.S. growth on prepared foods. In recent years the Company has focused on increasing its sales of prepared foods to the foodservice market, particularly to chain restaurants and frozen entree producers. The market for prepared food products has experienced greater growth and higher margins than fresh chicken products, and the Company's sales of prepared food products to the foodservice market have grown from \$178.2 million in fiscal 1992 to \$303.9 million in fiscal 1996, a compounded annual growth rate of 14.3%. Additionally, the production and sale of prepared foods reduces the impact of feed grain costs on the Company's profitability. As further processing is performed, feed grain costs become a decreasing percentage of a product's total production cost. The Company is now the largest supplier of chicken to Wendy's and Jack-in-the-Box chain restaurants and to Stouffer's frozen entree operations. Other major prepared foods customers include KFC and Taco Bell. Prepared foods constituted 44.9% of the Company's U.S. chicken sales in fiscal 1996.
- . Focus on customer driven research & development and technology. Much of the Company's growth in prepared foods has been the result of customer-driven research & development focused on designing new products to meet customers' changing needs. The Company's research & development personnel often work directly with institutional customers in developing proprietary products. Approximately \$110.9 million of the Company's sales to foodservice customers in fiscal 1996 consisted of new products which were not sold by the Company in fiscal 1992. The Company is also a leader in utilizing advanced processing technology, which enables the Company to better meet its customers' needs for product innovation, consistent quality and cost efficiency.
- . Enhance the U.S. fresh chicken product mix through value-added, branded products. The Company's fresh chicken business is an important component of its sales and has grown from sales of \$232.1 million in fiscal 1992 to \$286.2 million in fiscal 1996. In addition to maintaining its sales of mature, traditional fresh chicken products, the Company's strategy is to shift the mix of its U.S. fresh chicken products by continuing to increase sales of higher margin, faster growing products, such as marinated chicken and chicken parts. As a result of this strategy, the Company's compounded annual growth rate of fresh chicken sales from fiscal 1992 to fiscal 1996 exceeded 5.3% while total U.S. industry sales of fresh chicken increased less than 2.0%.
- . Maintain operating efficiencies and increase capacity on a cost-effective basis. As production and sales have grown, the Company has maintained operating efficiencies by investing in state-of-the-art technology, processes and training and by making cost-effective acquisitions both in the U.S. and Mexico. As a result, according to industry data, since 1993 the Company has consistently been one of the lowest cost producers of chicken. In addition, in two recent studies of 16 production facilities of various large chicken producers, the Company's prepared foods plant ranked as either the first or second lowest cost producer of deboned meat, which is the major cost component of prepared foods. Continuing this strategy, the Company acquired additional chicken producing assets in the U.S. in April 1997, to replace chicken purchased from third parties, at a cost that management believes is significantly less than the cost required to construct a new chicken production complex with similar capacity.
- . Capitalize on international demand for U.S. chicken. Due to U.S. consumers' preference for chicken breast meat, the Company has targeted international markets to generate sales of leg quarters. The Company has also begun selling prepared food products for export to the international divisions of its U.S. chain restaurant customers. As a result of these efforts, sales for these markets have grown from less than 1% of the Company's total U.S. chicken sales in fiscal 1992 to more than 6% in fiscal 1996. Management believes that (i) U.S. chicken exports will continue to grow as worldwide demand for high grade, low cost protein sources increases and (ii) worldwide demand for higher margin prepared food products will increase over the next five years; and accordingly, the Company is well positioned to capitalize on such growth.

- . Capitalize on investments and expertise in Mexico. The Company's strategy in Mexico is focused on (i) being one of the most cost-efficient producers and processors of chicken in Mexico by applying technology and expertise utilized in the U.S. and (ii) increasing distribution of its higher margin, value added products to national retail stores and restaurants. This strategy has resulted in the Company obtaining a market leadership position, with its estimated market share in Mexico increasing from 10.5% in 1992 to 18.8% in 1996.

#### THE OFFERING

##### Common Stock offered by the Selling Stockholders:

Archer-Daniels-Midland Company...	5,514,900 shares
Other non-management stockholders.....	746,482 shares
Total.....	6,261,382 shares
Common Stock to be outstanding after the Offering.....	27,589,250 shares

Use of Proceeds.....	The Company will not receive any of the proceeds of the Offering other than the proceeds, if any, received as a result of the exercise of the Underwriters' over-allotment option. Any proceeds received as a result of the exercise of the over-allotment option will be used to reduce borrowings under the Company's revolving credit facility.
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New York Stock Exchange symbol.....	CHX
Dividend Policy.....	\$0.015 per share per quarter. See "Price Range of Common Stock and Dividends."



## SUMMARY FINANCIAL AND OPERATING DATA

	FISCAL YEAR ENDED					SIX MONTHS ENDED	
	SEPTEMBER 26, 1992	OCTOBER 2, 1993(A)	OCTOBER 1, 1994	SEPTEMBER 30, 1995(B)	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)							
INCOME STATEMENT DATA:							
Net sales.....	\$817,361	\$887,843	\$922,609	\$931,806	\$1,139,310	\$539,479	\$601,207
Gross profit.....	32,802	106,036	110,827	74,144	70,640	37,019	53,352
Operating income (loss).....	(12,739)	56,345	59,698	24,930(c)	21,504 (c)	12,509 (c)	25,974
Foreign exchange (gain) loss.....	736	243	(257)	5,605(c)	1,275 (c)	1,222 (c)	536
Income (loss) before income taxes and extraordinary charge..	(33,712)	32,838	42,448	2,091	47	1,533	17,611(d)
Income tax expense (benefit)(e).....	(4,048)	10,543	11,390	10,058	4,551	2,792	2,552
Income (loss) before extraordinary charge..	(29,664)	22,295	31,058	(7,967)	(4,504)	(1,259)	15,059(d)
Net income (loss).....	(29,664)	21,009	31,058	(7,967)	(7,284)	(4,039)	15,059(d)
Income (loss) per common share before extraordinary charge..	\$ (1.24)	\$ 0.81	\$ 1.13	\$ (0.29)	\$ (0.16)	\$ (0.05)	\$ 0.55(d)
Net income (loss) per common share.....	\$ (1.24)	\$ 0.76	\$ 1.13	\$ (0.29)	\$ (0.26)	\$ (0.15)	\$ 0.55(d)
Dividends per common share.....	\$ 0.06	\$ 0.03	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.03	\$ 0.03
Weighted average shares outstanding.....	23,880	27,589	27,589	27,589	27,589	27,589	27,589
OTHER DATA:							
EBITDA(f).....	\$ 10,955	\$ 79,222	\$ 83,658	\$ 49,811	\$ 47,767	\$ 25,948	\$ 39,735
Capital expenditures...	14,813	11,511	23,572	71,589	32,534	22,262	12,090

AT  
MARCH 29,  
1997

## BALANCE SHEET DATA:

Working capital.....	\$ 98,526
Total assets.....	531,579
Notes payable and current maturities of long-term debt.....	33,645
Long-term debt, less current maturities.....	193,546
Total stockholders' equity.....	157,366

(a) Fiscal 1993 had 53 weeks.

(b) On July 5, 1995, the Company acquired certain assets of a group of five chicken companies located near Queretaro, Mexico for approximately \$35.3 million. 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.

(c) In addition to foreign exchange losses, the peso decline and the related economic recession in Mexico contributed significantly to the operating losses experienced by the Company's Mexican operations of \$17.0 million, \$8.2 million and \$3.2 million for fiscal years 1995 and 1996 and the six months ended March 30, 1996, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(d) Reflects \$2.2 million (or \$1.3 million or \$0.05 per share net of tax effect) of income arising from the final settlement of claims resulting from a January 1992 fire at the Company's prepared foods plant.

(e) The Company does not include income or losses from its Mexican operations in its determination of taxable income for U.S. income tax purposes based upon its determination that such earnings will be indefinitely reinvested in Mexico. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note D of the Consolidated Financial Statements of the Company.

(f) "EBITDA" is defined as the sum of operating income (loss) and depreciation and amortization (excluding amortization of capitalized financing costs). EBITDA should not be considered as an alternative to, or more meaningful than, net income as a measure of the Company's operating performance or cash flows as a measure of the Company's liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." EBITDA is presented here not as an alternative measure of operating results or liquidity, but rather to provide additional information related to the Company's debt service ability. Certain restrictive covenants contained in agreements relating to the Company's indebtedness are based on the Company's EBITDA, subject to certain adjustments.

# RECENT FINANCIAL INFORMATION

The following table sets forth certain unaudited summary financial information of the Company for the three and nine months ended June 29, 1996 and June 28, 1997.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JUNE 29, 1996	JUNE 28, 1997	JUNE 29, 1996	JUNE 28, 1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net sales.....	\$ 294,339	\$ 335,168	\$833,818	\$936,375
Operating income.....	5,454	12,627	17,963	38,602
Net income (loss).....	1,007	7,286	(3,032)	22,346
Net income (loss) per common share.....	\$ 0.04	\$ 0.26	\$ (0.11)	\$ 0.81
Weighted average shares outstanding.....	27,589	27,589	27,589	27,589

The increases in consolidated net sales between the three and nine months ended June 28, 1997 and the three and nine months, respectively, ended June 29, 1996 primarily resulted from increases in U.S. chicken sales of \$28.3 million to \$227.1 million and \$63.4 million to \$624.4 million, respectively; and increases in Mexican chicken sales of \$13.0 million to \$74.4 million and \$31.9 million to \$201.9 million, respectively. The increases in U.S. chicken sales for the three and nine months ended June 28, 1997 when compared to the three and nine months, respectively, ended June 29, 1996 resulted from increases in dressed pounds produced of 20.9% and 12.1%, respectively, offset by decreases in total revenue per dressed pound produced of 5.5% and 0.7%, respectively. The decrease in total revenue per dressed pound produced in the U.S. is primarily attributable to weakness in the leg quarter market experienced in the third quarter of fiscal 1997. The increases in Mexican chicken sales for the three and nine months ended June 28, 1997 when compared to the three and nine months, respectively, ended June 29, 1996 were primarily due to a 16.4% and 24.4% respective increase in total revenue per dressed pound produced in Mexico. Dressed pounds produced in Mexico increased by 4.1% for the three months ended June 29, 1996 when compared to the three months ended June 28, 1997, but decreased by 4.5% for the nine months ended June 29, 1996 when compared to the nine months ended June 28, 1997. The increases in operating income for the three and nine months ended June 28, 1997 when compared to the three and nine months ended June 29, 1996 also reflect reduced feed ingredient costs. The results for the three and nine months ended June 28, 1997 are not necessarily indicative of the results that may be expected for the full fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

## RISK FACTORS

### INDUSTRY CYCLICALITY

Profitability in the chicken industry can be materially affected by the commodity prices of feed grains and the commodity prices of chicken and chicken parts, each of which are determined largely by balances in supply and demand. As a result, the chicken industry as a whole has been characterized by cyclical earnings.

High feed grain prices have had a material adverse effect on the Company's operating results in recent periods. The Company periodically seeks, to the extent available, to enter into advance purchase commitments and/or financial hedging contracts for the purchase of feed grains in an effort to manage its feed grain costs. There can be no assurance that the use of such instruments by the Company will be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "The Chicken Industry."

### SUBSTANTIAL INDEBTEDNESS

The Company currently has a significant amount of outstanding indebtedness. The degree to which the Company is leveraged could have important consequences to the Company, including the following: (i) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired; (ii) a substantial portion of the Company's cash flow from operations must be dedicated to the payment of the principal of and interest on its existing indebtedness; (iii) the Company is more leveraged than certain of its competitors, which may place the Company at a competitive disadvantage; (iv) certain of the Company's borrowings are at variable rates of interest, which cause the Company to be vulnerable to increases in interest rates; (v) the terms of certain of the Company's indebtedness permit its creditors to accelerate payments or require redemption upon certain events which constitute a change in control of the Company; and (vi) the Company's high degree of leverage may make it more vulnerable to economic downturns and may limit its ability to withstand competitive pressures and adverse changes in government regulation, consummate acquisitions and capitalize on significant business opportunities.

### RESTRICTIONS IMPOSED BY TERMS OF THE COMPANY'S INDEBTEDNESS

The terms and conditions of documents evidencing the Company's indebtedness impose restrictions that affect, among other things, the Company's ability to (i) incur additional indebtedness (including indebtedness incurred by means of guarantees); (ii) create liens on assets; (iii) sell assets; (iv) engage in mergers or consolidations; (v) make investments, acquisitions and capital expenditures; (vi) pay dividends; and (vii) engage in certain transactions with affiliates and subsidiaries. The Company is also required to comply with certain specified financial ratios and tests. The Company's ability to comply with such provisions may be affected by events beyond its control. The Company's failure to comply with any of these covenants and restrictions could result in defaults which in turn could cause such indebtedness (and by reason of cross-acceleration provisions, certain other of its indebtedness) to be declared immediately due and payable.

### FOREIGN OPERATIONS

The Company has substantial operations and assets located in Mexico. Foreign operations are subject to a number of special risks, including currency exchange rate fluctuations, trade barriers, exchange controls, expropriation, changes in laws and policies, including those governing foreign-owned operations, and other risks. Currency exchange rate fluctuations have adversely affected the Company in the past and there can be no assurance that currency exchange rate fluctuations or one or more of such other risks will not have a material adverse effect on the Company in the future.

The Company's operations in Mexico are conducted through subsidiaries of the Company organized under the laws of Mexico. The Company may rely in part on intercompany loans and distributions from such

subsidiaries to meet its obligations. Claims of creditors of the Company's subsidiaries, including trade creditors, will generally have priority as to the assets of such subsidiaries over the claims of the Company. Additionally, the ability of the Company's Mexican subsidiaries to make payments and distributions to the Company will be subject to, among other things, Mexican law. Although such laws have not had, and the Company does not anticipate such laws having, a material adverse effect on the ability of the Company's Mexican subsidiaries to make such payments and distributions, no assurances can be given that such laws will not have such a material adverse effect.

#### REGULATION

The chicken industry is subject to federal, state and local governmental regulation, including in the health and environmental areas by the Centers for Disease Control, the United States Department of Agriculture ("USDA"), the Food and Drug Administration ("FDA") and the Environmental Protection Agency (the "EPA") in the United States and by similar governmental agencies in Mexico. The Company anticipates increased regulation by the USDA concerning food safety, by the FDA concerning the use of medications in feed and by the Texas Natural Resources and Conservation Commission (the "TNRCC"), the Arkansas State Veterinarian Office (the "ASVO") and the EPA concerning the disposal of chicken by-products and wastewater discharges. Although the Company does not anticipate any such regulation having a material adverse effect upon the Company, there can be no assurance that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations will not materially affect the Company's business or operations in the future. See "Business--Regulation."

#### VOTING CONTROL BY PRINCIPAL STOCKHOLDER

Lonnie "Bo" Pilgrim has voting control of 60.8% of the Company's outstanding Common Stock and is therefore in a position to control the outcome of all actions requiring stockholder approval, including the election of Directors, thereby insuring his ability to control the future direction and management of the Company. If Mr. Pilgrim and certain members of his family cease to own at least a majority of the outstanding Common Stock of the Company, it will constitute an event of default under certain agreements relating to the Company's indebtedness and will entitle certain other holders of indebtedness to the prepayment of such indebtedness. See "--Potential Payment of Deferred Taxes" and "Principal and Selling Stockholders."

#### POTENTIAL PAYMENT OF DEFERRED TAXES

During taxable periods ending on or before July 2, 1988, the Company used the cash method of accounting for income tax purposes. Pursuant to certain provisions enacted by the Revenue Act of 1987, the Company was required to change its method of accounting for federal income tax purposes from the cash method to the accrual method. As a consequence of such change in accounting method, the Company was permitted to create a "suspense account" in the amount of approximately \$89.7 million, which represents deferred income arising from the Company's prior use of the cash method of accounting. If certain events occur, which events are not necessarily within the control of the Company, then the Company will be required to include all or a portion of the amount in the suspense account in its taxable income.

The suspense account is includable in the taxable income of the Company in either of two circumstances. First, the full amount of the suspense account would be included in the Company's taxable income if the Company ceases to qualify as a "family farm corporation" during any taxable period. The Company ceases to qualify as a family farm corporation if less than 50% of the total combined voting power of all classes of stock entitled to vote, or less than 50% of all other classes of stock of the Company, are owned by members of the Lonnie "Bo" Pilgrim family. Lonnie "Bo" Pilgrim and his family currently own in excess of 60% of the outstanding Common Stock. Second, a portion of the Company's suspense account must be reported as taxable income if the Company's gross receipts from the Company's chicken operations for any taxable year ("Current Year Receipts") are less than the Company's gross receipts from such operations for the taxable year ending July 2, 1988 (or the gross receipts of any subsequent year in which a portion of the suspense account must be

reported as income) ("Base Year Receipts"). The amount of the suspense account includable in income would be the product of (i) the amount in the suspense account times (ii) the ratio of (A) the excess of Base Year Receipts over Current Year Receipts to (B) Base Year Receipts.

While currently there exists no plan or intention on the part of Lonnie "Bo" Pilgrim to transfer sufficient stock of the Company so that the Company ceases to qualify as a family farm corporation, and while management believes that in all likelihood gross receipts from its chicken operations in future years will exceed gross receipts from such operations for the fiscal year ending July 2, 1988, there can be no assurance that this will be the case and that the suspense account will not be required to be included in whole or in part in the taxable income of the Company.

Proposed tax legislation currently under consideration in both the House of Representatives and the Senate includes a provision which, if enacted, would require the Company to include its approximately \$89.7 million suspense account in taxable income, generally spread over a twenty year period beginning with its first taxable year ending after June 8, 1997. The above described rules requiring the inclusion of all or a part of the suspense account in taxable income in certain circumstances would continue to apply under the proposed legislation. The Clinton Administration has proposed similar legislation which would require that the suspense account be included in taxable income generally spread over a ten year period. It is not possible to predict whether such legislation will be enacted into law, and if so, the form or effective date thereof (including the period of time over which the suspense account would be required to be spread and reported as taxable income).

#### COMPETITION

The chicken industry is highly competitive and certain of the Company's competitors have greater financial and marketing resources than the Company. In both the United States and Mexico, the Company competes principally with other vertically integrated chicken companies.

In general, the competitive factors in the U.S. 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 U.S. retail 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.

In Mexico, where product differentiation is limited, product quality and price are the most critical competitive factors. Additionally, the North American Free Trade Agreement ("NAFTA"), which went into effect on January 1, 1994, requires annual reductions in tariffs for chicken and chicken products in order to eliminate such tariffs by January 1, 2003. As such tariffs are reduced, there can be no assurance that increased competition from chicken imported into Mexico from the U.S. will not have a material adverse effect on the Mexican chicken industry in general, or the Company's Mexican operations in particular.

There can be no assurance that the results of any such competition will not have a material adverse effect on the Company's business or operations.

## THE COMPANY

The Company, which was incorporated in Texas in 1968 and reincorporated in Delaware in 1986, is the successor to a partnership founded in 1946 as a retail feed store. Over the years, the Company grew through both internal growth and various acquisitions of farming operations and chicken processors. In addition to domestic growth, the Company initially expanded into Mexico through the acquisition of several smaller chicken producers in 1988.

The Company's principal executive offices are located at 110 South Texas Street, Pittsburg, Texas 75686 and its telephone number at such address is (903) 855-1000.

## USE OF PROCEEDS

The Company will not receive any of the proceeds from the sale of the Common Stock by the Selling Stockholders. The Company will only receive proceeds from the sale of the Common Stock offered hereby if the over-allotment option is exercised. If the over-allotment option is exercised in full, the Company will receive net proceeds of approximately \$ million. The Company will use the proceeds, if any, received as a result of the exercise of the over-allotment option to reduce the borrowings under its revolving credit facility, which currently bears interest at a rate equal to LIBOR plus 1 3/8% and expires in May 1999. The borrowings under the Company's revolving credit facility were used for general corporate purposes.

## PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The Common Stock is listed on the New York Stock Exchange under the trading symbol "CHX." The following table sets forth the high and low sale prices for the Common Stock as reported by the New York Stock Exchange and the dividends declared during the quarters indicated.

	PRICE RANGE OF COMMON STOCK		DIVIDENDS PER SHARE
	HIGH	LOW	
FISCAL YEAR ENDED SEPTEMBER 30, 1995:			
1st Quarter.....	\$10 3/8	\$ 9 3/8	\$0.015
2nd Quarter.....	9 3/4	7 3/4	0.015
3rd Quarter.....	8 3/8	7 1/2	0.015
4th Quarter.....	8 3/4	7 5/8	0.015
FISCAL YEAR ENDED SEPTEMBER 28, 1996:			
1st Quarter.....	\$ 8 3/8	\$ 6 5/8	\$0.015
2nd Quarter.....	7 5/8	6 3/4	0.015
3rd Quarter.....	9	6 3/4	0.015
4th Quarter.....	9	7 1/2	0.015
FISCAL YEAR ENDED SEPTEMBER 27, 1997:			
1st Quarter.....	\$ 9	\$ 7 3/4	\$0.015
2nd Quarter.....	12 1/8	8 5/8	0.015
3rd Quarter.....	12 3/4	9 3/8	0.015
4th Quarter (through July 17).....	12 1/4	11 5/8	---

On July 17, 1997, the reported last sale price of the Common Stock was \$11 7/8 per share. The Company believes that as of July 17, 1997 there were approximately 12,500 holders of Common Stock of record or through nominee or street name accounts with brokers.

With the exception of two quarters in fiscal 1993, the Company's Board of Directors has declared cash dividends of \$0.015 per share of Common Stock every fiscal quarter since the Company's initial public offering in 1986. Payment of future dividends will depend upon the Company's financial condition, results of operations and other factors deemed relevant by the Company's Board of Directors, as well as any limitations imposed by lenders under the Company's credit facilities. The Company's revolving credit facility currently limits dividends to a maximum of \$1.7 million per year. See Note C to the Consolidated Financial Statements of the Company.

# SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents summary historical financial data of the Company as of and for the fiscal years ended 1992, 1993, 1994, 1995 and 1996 and as of and for the six months ended March 30, 1996, and March 29, 1997. The income statement and balance sheet data are derived from the Consolidated Financial Statements of the Company which (except for the six months ended March 30, 1996, and March 29, 1997) have been audited by Ernst & Young LLP, independent auditors. The Consolidated Financial Statements as of September 30, 1995, and September 28, 1996, and for each of the fiscal years in the three-year period ended September 28, 1996, and the report of Ernst & Young LLP thereon, are included elsewhere in this Prospectus. The Consolidated Financial Statements as of and for the six months ended March 30, 1996, and March 29, 1997, are unaudited, but, in the opinion of management, have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of such data. The results for the six months ended March 29, 1997, are not necessarily indicative of the results that may be expected for the full fiscal year. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

	FISCAL YEAR ENDED					SIX MONTHS ENDED	
	SEPTEMBER 26, 1992	OCTOBER 2, 1993(A)	OCTOBER 1, 1994	SEPTEMBER 30, 1995(B)	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
INCOME STATEMENT DATA:							
Net sales.....	\$817,361	\$887,843	\$922,609	\$931,806	\$1,139,310	\$539,479	\$601,207
Cost of sales.....	784,940	781,807	811,782	857,662	1,068,670	502,460	547,855
Gross profit.....	32,802	106,036	110,827	74,144	70,640	37,019	53,352
Selling, general and administrative expense.....	45,541	49,691	51,129	49,214	49,136	24,510	27,378
Operating income (loss).....	(12,739)	56,345	59,698	24,930(c)	21,504(c)	12,509(c)	25,974
Interest expense, net..	22,502	25,719	19,173	17,483	21,539	10,331	10,733
Foreign exchange (gain) loss.....	736	243	(257)	5,605(c)	1,275(c)	1,222(c)	536
Income (loss) before income taxes and extraordinary charge..	(33,712)	32,838	42,448	2,091	47	1,533	17,611(d)
Income tax expense (benefit)(e).....	(4,048)	10,543	11,390	10,058	4,551	2,792	2,552
Income (loss) before extraordinary charge..	(29,664)	22,295	31,058	(7,967)	(4,504)	(1,259)	15,059(d)
Extraordinary charge-early repayment of debt, net of tax.....	--	(1,286)	--	--	(2,780)	(2,780)	--
Net income (loss).....	(29,664)	21,009	31,058	(7,967)	(7,284)	(4,039)	15,059(d)
Income (loss) per common share before extraordinary charge..	\$ (1.24)	\$ 0.81	\$ 1.13	\$ (0.29)	\$ (0.16)	\$ (0.05)	\$ 0.55(d)
Net income (loss) per common share.....	\$ (1.24)	\$ 0.76	\$ 1.13	\$ (0.29)	\$ (0.26)	\$ (0.15)	\$ 0.55(d)
Dividends per common share.....	\$ 0.06	\$ 0.03	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.03	\$ 0.03
Weighted average shares outstanding.....	23,880	27,589	27,589	27,589	27,589	27,589	27,589
OTHER DATA:							
EBITDA(f).....	\$ 10,955	\$ 79,222	\$ 83,658	\$ 49,811	\$ 47,767	\$ 25,948	\$ 39,735
Capital expenditures...	14,813	11,511	23,572	71,589	32,534	22,262	12,090
BALANCE SHEET DATA (END OF PERIOD):							
Working capital.....	\$ 11,277	\$ 72,688	\$ 99,724	\$ 88,395	\$ 88,455	\$ 90,816	\$ 98,526
Total assets.....	434,566	422,846	438,683	497,604	536,722	526,703	531,579
Notes payable and current maturities of long-term debt.....	86,424	25,643	4,493	18,187	35,850	33,121	33,645
Long-term debt, less current maturities....	131,534	159,554	152,631	182,988	198,334	202,128	193,546
Total stockholders' equity.....	112,112	132,293	161,696	152,074	143,135	147,206	157,366

(footnotes on next page)

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- (a) Fiscal 1993 had 53 weeks.
  - (b) On July 5, 1995, the Company acquired certain assets of a group of five chicken companies located near Queretaro, Mexico for approximately \$35.3 million. 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.
  - (c) In addition to foreign exchange losses, the peso decline and the related economic recession in Mexico contributed significantly to the operating losses experienced by the Company's Mexican operations of \$17.0 million, \$8.2 million and \$3.2 million for fiscal years 1995 and 1996 and the six months ended March 30, 1996, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
  - (d) Reflects \$2.2 million (or \$1.3 million or \$0.05 per share net of tax effect) of income arising from the final settlement of claims resulting from a January 1992 fire at the Company's prepared food plant.
  - (e) The Company does not include income or losses from its Mexican operations in its determination of taxable income for U.S. income tax purposes based upon its determination that such earnings will be indefinitely reinvested in Mexico. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note D of the Consolidated Financial Statements of the Company.
  - (f) "EBITDA" is defined as the sum of operating income (loss) and depreciation and amortization (excluding amortization of capitalized financing costs). EBITDA should not be considered as an alternative to, or more meaningful than, net income as a measure of the Company's operating performance or cash flows as a measure of the Company's liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." EBITDA is presented here not as an alternative measure of operating results or liquidity, but rather to provide additional information related to the Company's debt service ability. Certain restrictive covenants contained in agreements relating to the Company's indebtedness are based on the Company's EBITDA, subject to certain adjustments.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

GENERAL

Profitability in the chicken industry can be materially affected by the commodity prices of feed grains and the commodity prices of chicken and chicken parts, each of which are determined largely by supply and demand. As a result, the chicken industry as a whole has been characterized by cyclical earnings. Cyclical fluctuations in earnings of individual chicken companies can be mitigated somewhat by (i) business strategy; (ii) product mix; (iii) sales and marketing plans; and (iv) operating efficiencies. See "The Chicken Industry." 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. Additionally, the production and sale in the U.S. of prepared food products reduces the impact of feed grain costs on the Company's profitability. As further processing is performed, feed grain costs become a decreasing percentage of a product's total production costs.

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 3, 1994 to a low of 8.16 to 1 U.S. dollar at November 14, 1995. The decline in the Mexican peso exchange rate affected the Company's operations directly and indirectly as a result of the related economic recession in Mexico in fiscal 1995. Similarly, the Company's results of operations were adversely affected by (i) the continuation of the economic recession in Mexico in fiscal 1996, as well as (ii) significantly higher feed grain costs in fiscal 1996 (which included record high corn prices), and the first quarter of fiscal 1997 when compared with fiscal 1995 and the first quarter of fiscal 1996, respectively.

Since July 1996, feed ingredient prices have decreased significantly from the fiscal 1996 high and the Mexican economy has shown improvement. See "The Chicken Industry." Accordingly, the Company's operating results have improved significantly during the first six months of fiscal 1997 as compared with the first six months of fiscal 1996.

The following table presents certain information regarding the Company's U.S. and Mexican operations.

	FISCAL YEAR ENDED			SIX MONTHS ENDED	
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
	(IN THOUSANDS)				
SALES TO UNAFFILIATED CUSTOMERS:					
United States.....	\$733,865	\$772,315	\$911,181	\$430,952	\$473,761
Mexico.....	188,744	159,491	228,129	108,527	127,446
OPERATING INCOME (LOSS):					
United States.....	46,421	41,923	29,705	15,709	14,401
Mexico.....	13,277	(16,993)	(8,201)	(3,200)	11,573

The following table presents certain items as a percentage of net sales for the periods indicated.

	PERCENTAGE OF NET SALES				
	FISCAL YEAR ENDED			SIX MONTHS ENDED	
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	88.0	92.0	93.8	93.1	91.1
Gross profit.....	12.0	8.0	6.2	6.9	8.9
Selling, general and administrative expense.	5.5	5.3	4.3	4.5	4.6
Operating income.....	6.5	2.7	1.9	2.3	4.3
Interest expense.....	2.1	1.9	1.9	1.9	1.8
Income before income taxes and extraordinary charge.....	4.6	2.2	0.0	0.3	2.9
Net income (loss).....	3.4	(8.6)	(0.6)	(0.7)	2.5

## RESULTS OF OPERATIONS

Six Months Ended March 29, 1997 Compared to Six Months ended March 30, 1996

**Net Sales.** Consolidated net sales were \$601.2 million for the first six months of fiscal 1997, an increase of \$61.7 million, or 11.4%, over the first six months of fiscal 1996. The increase in consolidated net sales resulted from a \$35.1 million increase in U.S. chicken sales to \$397.3 million, an \$18.9 million increase in Mexican chicken sales to \$127.4 million and a \$7.7 million increase of sales of other domestic products to \$76.5 million. The increase in U.S. chicken sales was primarily due to a 7.5% increase in dressed pounds produced and a 2.1% increase in total revenue per dressed pound produced. The increase in Mexican chicken sales was primarily due to a 28.3% increase in total revenue per dressed pound, offset slightly by an 8.5% decrease in dressed pounds produced resulting from management's decision in fiscal 1996 to reduce production due to the recession in Mexico. The increase in sales of other U.S. products was primarily the result of increased sales of the Company's chicken by-products group and higher average prices for commercial eggs for the period. Increased revenues per dressed pound produced both in the United States and in Mexico were primarily the result of higher sales prices as well as generally improved economic conditions in Mexico compared to the prior year period.

**Cost of Sales.** Consolidated cost of sales was \$547.9 million in the first six months of fiscal 1997, an increase of \$45.4 million, or 9.0%, over the first six months of fiscal 1996. The increase primarily resulted from a \$41.5 million increase in cost of sales of U.S. operations, and a \$3.9 million increase in the cost of sales in Mexican operations. The cost of sales increase in U.S. operations of \$41.5 million was due to a 7.5% increase in dressed pounds produced, increased production of higher cost and margin products in prepared foods, and increased feed ingredient costs experienced primarily during the first three months of such period. The \$3.9 million cost of sales increase in Mexican operations was primarily due to a 13.3% increase in average costs of sales per pound offset partially by an 8.5% decrease in dressed pounds produced. The increase in average costs of sales per pound was primarily the result of increased production of higher value and cost products.

**Gross Profit.** Gross profit as a percentage of sales increased to 8.9% in the first six months of fiscal 1997 from 6.9% in the first six months of fiscal 1996. The increased gross profit as a percentage of sales resulted mainly from higher sales prices as mentioned above and significantly higher margins in Mexico.

**Selling, General and Administrative Expenses.** Consolidated selling, general and administrative expenses were \$27.4 million in the first six months of fiscal 1997 and \$24.5 million in the first six months of fiscal 1996. Consolidated selling, general and administrative expenses as a percentage of sales increased slightly in the first six months of fiscal 1997 to 4.6% compared to 4.5% in the first six months of fiscal 1996.

**Operating Income.** Consolidated operating income was \$26.0 million for the first six months of fiscal 1997, an increase of \$13.5 million, or 107.6%, when compared to the first six months of fiscal 1996, resulting primarily from higher margins experienced in the Mexican operations.

**Interest Expense.** Consolidated net interest expense was \$10.7 million in the first six months of fiscal 1997, an increase of \$0.4 million, or 3.9%, when compared to the first six months of fiscal 1996. This increase was due to slightly higher interest rates and higher average outstanding debt amounts when compared to the first six months of fiscal 1996.

**Miscellaneous Expense.** Consolidated miscellaneous, net, a component of Other Expense (Income), was \$2.9 million in the first six months of fiscal 1997 and includes a \$2.2 million final settlement of claims resulting from the January 8, 1992 fire at the Company's prepared foods plant in Mt. Pleasant, Texas.

**Income Tax Expense.** Consolidated income tax expense in the first six months of fiscal 1997 decreased to \$2.5 million compared to an expense of \$2.8 million in the first six months of fiscal 1996. The lower consolidated income tax expense in contrast to higher consolidated income resulted from increased Mexican earnings that are not currently subject to income taxes. See Note D of the Consolidated Financial Statements of the Company.

## Fiscal 1996 Compared to Fiscal 1995

**Net Sales.** Consolidated net sales were \$1.14 billion for fiscal 1996, an increase of \$207.5 million, or 22.3%, over fiscal 1995. The increase in consolidated net sales resulted from a \$102.6 million increase in U.S. chicken sales to \$773.7 million, a \$68.6 million increase in Mexican chicken sales to \$228.1 million and a \$36.3 million increase in sales of other domestic products to \$137.5 million. The increase in U.S. chicken sales was primarily due to a 7.7% increase in total revenue per dressed pound produced and a 7.0% increase in dressed pounds produced. The increase in Mexican chicken sales was primarily due to a 35.6% increase in Mexican dressed pounds produced and a 5.5% increase in total revenue per dressed pound. The increase in Mexican dressed pounds produced resulted primarily from the July 5, 1995 acquisition of five chicken companies located near Queretaro, Mexico. The increase in sales of other domestic products was primarily the result of increased sales of the Company's chicken by-products group and higher sales prices for table eggs. Increased revenues per dressed pound produced both in the U.S. and in Mexico were primarily the result of higher sales prices caused by the chicken markets adjusting to higher feed ingredient cost.

**Cost of Sales.** Consolidated cost of sales was \$1.07 billion in fiscal 1996, an increase of \$211.0 million, or 24.6%, over fiscal 1995. The increase primarily resulted from a \$150.8 million increase in cost of sales of U.S. operations, and a \$60.2 million increase in the cost of sales in Mexican operations. The cost of sales increase in U.S. operations of \$150.8 million was due to a 41.5% increase in feed ingredient costs, a 7.0% increase in dressed pounds produced and increased production of higher cost and margin products in prepared foods. Since the fiscal 1995 year end, feed ingredient costs increased substantially due to lower crop yields in the 1995 harvest season. Beginning in July 1996, feed ingredient prices declined significantly due to a favorable crop harvest. The \$60.2 million cost of sales increase in Mexican operations was primarily due to a 35.6% increase in dressed pounds produced and a 7.0% increase in average costs of sales per pound. The increase in average costs of sales per pound was primarily the result of a 37.2% increase in feed ingredient costs resulting from the reasons discussed above.

**Gross Profit.** Gross profit as a percentage of sales decreased to 6.2% in fiscal 1996 from 8.0% in fiscal 1995. The decreased gross profit as a percentage of sales resulted mainly from increased costs of sales due to higher feed ingredient prices experienced in fiscal 1996.

**Selling, General and Administrative Expenses.** Consolidated selling, general and administrative expenses were \$49.1 million in fiscal 1996 and \$49.2 million in fiscal 1995. Consolidated selling, general and administrative expenses as a percentage of sales decreased in fiscal 1996 to 4.3% compared to 5.3% in fiscal 1995.

**Operating Income.** Consolidated operating income was \$21.5 million for fiscal 1996, a decrease of \$3.4 million when compared to fiscal 1995, resulting primarily from higher feed ingredient cost.

**Interest Expense.** Consolidated net interest expense was \$21.5 million in fiscal 1996, an increase of \$4.1 million, or 23.2%, when compared to fiscal 1995. This increase was due to higher outstanding debt levels resulting primarily from expansions in the U.S. and the prior year acquisitions in Mexico, offset slightly by lower interest rates when compared to fiscal 1995.

**Income Tax Expense.** Consolidated income tax expense in fiscal 1996 was \$4.6 million compared to a consolidated income tax expense of \$10.1 million in fiscal 1995. Consolidated income tax expense is significantly in excess of the amount computed at the statutory U.S. income tax rate due to the non-deductibility of Mexican losses in the U.S. in both fiscal 1996 and fiscal 1995. The decrease in consolidated income tax expense in fiscal 1996 compared to fiscal 1995 primarily resulted from the \$13.6 million decrease in income before income taxes and extraordinary charges for domestic operations in fiscal 1996 compared to fiscal 1995.

**Extraordinary Charge.** The extraordinary charge-early repayment of debt in the amount of \$2.8 million, net of tax, was incurred while refinancing certain debt at a lower interest rate, which will result in long-term interest expense reductions. See Note C to the Consolidated Financial Statements of the Company.

## Fiscal 1995 Compared to Fiscal 1994

**Net Sales.** 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 U.S. 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 U.S. 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 and the resulting recession, offset by an 8.1% increase in dressed pounds produced. See "--Impact of Mexican Peso Devaluation."

**Cost of Sales.** 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 U.S. operations and a \$6.7 million increase in the cost of sales from Mexican operations. The cost of sales increase in U.S. operations of \$39.2 million was due primarily to a 3.6% increase in dressed pounds produced and increased production of higher cost and margin products in prepared foods, offset partially by a 6.1% decrease in feed ingredient cost. 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 Mexican Peso Devaluation."

**Gross Profit.** Gross profit as a percentage of sales decreased to 8.0% in fiscal 1995 from 12.0% 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.

**Selling, General and Administrative Expenses.** 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.

**Operating Income.** 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 above.

**Interest Expense.** 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.

**Income Tax Expense.** 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 results in no current tax benefit under current Mexican tax laws.

## LIQUIDITY AND CAPITAL RESOURCES

At March 29, 1997, the Company's working capital was \$98.5 million and its current ratio was 1.79 to 1 compared with working capital of \$88.5 million and a current ratio of 1.63 to 1 at September 28, 1996, and working capital of \$88.4 million and a current ratio of 1.84 to 1 at September 30, 1995. The increase in working capital from September 28, 1996 to December 28, 1996 was due primarily to income from operations.

Trade accounts and other receivables were \$69.3 million at March 29, 1997, compared to \$65.9 million at September 28, 1996, and \$60.0 million at September 30, 1995. The \$3.4 million or 5.1% increase from September 28, 1996 to March 29, 1997 was due primarily to increased sales volume. The \$5.9 million or 9.8%

increase from September 30, 1995 to September 28, 1996 was primarily due to increased average selling prices and volumes. Allowances for doubtful accounts, as a percentage of trade accounts and notes receivable, were 4.6% at March 29, 1997 compared to 5.7% at September 28, 1996 and 6.7% at September 30, 1995. The decrease is due to increased net sales resulting in a corresponding increase in trade accounts and other receivables with the dollar amount of allowances for doubtful accounts remaining relatively stable.

Inventories were \$137.9 million at March 29, 1997, compared to \$136.9 million at September 28, 1996, and \$110.4 million at September 30, 1995. The \$1.0 million increase between September 28, 1996 and March 29, 1997 was due primarily to higher finished poultry products inventories offset partially by the reduction of feed costs in inventories. The \$26.5 million increase between September 30, 1995 and September 28, 1996 was due primarily to the higher feed ingredient costs affecting the carrying value of feed on hand and feed cost in the live chickens and finished products.

Accounts payable were \$57.8 million at March 29, 1997 compared to \$71.4 million at September 28, 1996, and \$55.7 million at September 30, 1995. The \$13.6 million or 19.0% decrease from September 28, 1996 to March 29, 1997 was due primarily to the reduction in feed ingredient costs. The \$15.7 million or 28.2% increase from September 30, 1995 to September 28, 1996 was due primarily to higher production levels and feed ingredient costs.

Capital expenditures were \$12.2 million and \$34.3 million for the six months ended March 29, 1997 and fiscal 1996, respectively, and were incurred primarily to expand production capacities in the U.S., improve efficiencies, reduce costs and for the routine replacement of equipment. The Company anticipates that it will spend a total of approximately \$55 million for capital expenditures, including the purchase of certain assets of Green Acre Foods, Inc., in fiscal 1997 for these same purposes. The Company expects to finance such expenditures with available operating cash flows and long-term financing. On April 15, 1997, the Company completed its acquisition of certain chicken producing assets of Green Acre Foods, Inc., an integrated chicken producer located in the Center and Nacogdoches area of East Texas. These assets are capable of producing 650,000 chickens per week.

Cash flows provided by (used in) operating activities were \$9.7 million, \$(10.7) million, \$11.4 million, \$32.7 million and \$60.7 million in the six month periods ended March 29, 1997 and March 30, 1996 and the fiscal years 1996, 1995 and 1994, respectively. The significant increase in cash flows provided from operating activities for the six months ended March 29, 1997 compared to the six months ended March 30, 1996 was due primarily to net income for the six months ended March 29, 1997 compared to net losses incurred for the six months ended March 30, 1996. The decrease in cash flows provided by operating activities between fiscal 1996 and fiscal 1995 was primarily caused by increased inventories resulting from higher feed costs in fiscal 1996. The decrease in cash flows provided by operating activities between fiscal 1995 and fiscal 1994 was primarily caused by changes in net income.

Cash provided by (used in) financing activities was \$(7.9) million, \$29.3 million, \$27.3 million, \$40.2 million and \$(30.3) million in the six months ended March 29, 1997 and March 30, 1996 and in the fiscal years 1996, 1995 and 1994, respectively. The cash provided by (used in) financing activities primarily reflects the net proceeds from notes payable and long-term financings and debt retirements.

Total debt to capitalization decreased to 59.1% at March 29, 1997 compared to 62.1% at September 28, 1996. The Company maintains \$110 million in revolving credit facilities with available unused lines of credit of \$77 million at June 11, 1997. The facilities expire in or after May 1999. On April 15, 1997, the Company secured an additional \$35 million in secured term borrowing capacity from an existing lender at rates of 2.0% over LIBOR, with monthly principal and interest payments, maturing on February 28, 2006. As of June 11, 1997, \$20 million had been borrowed under such facility, and the Company may borrow the remaining \$15 million at any time on or before April 1, 1999. Additionally, on June 9, 1997, the Company secured an additional \$10 million in secured term borrowing capacity from a group of existing lenders at rates currently equal to LIBOR plus 1 3/8%, with interest only payments monthly, maturing on June 9, 1999. As of June 11, 1997, nothing had been borrowed under this facility.

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 in excess of 60% 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. See "Risk Factors--Potential Payment of Deferred Taxes."

#### 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 3, 1994 to a low of 8.16 to 1 U.S. dollar at November 14, 1995. On June 11, 1997 the Mexican peso closed at 7.97 to 1 U.S. dollar. No assurance can be given as to the future valuation of the Mexican peso and further movement in the Mexican peso could affect future earnings positively or negatively. See "--General."

#### 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. The Company adopted SFAS No. 121 effective September 29, 1996. The adoption of SFAS No. 121 did not have a material effect on the Company's consolidated financial statement.

#### 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.

## THE CHICKEN INDUSTRY

The Company produces chicken in both the United States and Mexico. Substantially all of the Company's U.S. production is sold in the United States and all of the Company's Mexican production is sold in Mexico. In fiscal 1996, approximately 80% of the Company's net sales were attributable to its U.S. operations. The Company expects these levels of relative contribution to continue in the foreseeable future.

### UNITED STATES

#### General

Prior to 1960, the U.S. chicken industry was highly fragmented with numerous small, independent breeders, growers and processors. The industry has consolidated during the last 35 years resulting in a relatively small number of larger, more vertically integrated companies. In general, vertical integration of the U.S. chicken industry has led to lower profit margins at each independent production stage. Such lower profit margins have had a disproportionately adverse effect on less vertically integrated chicken producers which are unable to realize the synergies benefiting their more integrated competitors.

The following table sets forth the annualized average pounds of chicken produced by, and the market share of, the ten largest U.S. producers of chicken. This table reflects annualized respective volumes derived from average weekly data reported by Broiler Industry in January 1997, with the Company's volume adjusted to include 135.2 million additional pounds of production capacity acquired from Green Acre Foods, Inc. in April 1997.

	ESTIMATED ANNUAL PRODUCTION (IN MILLIONS MARKET OF POUNDS) SHARE	
Tyson Foods, Inc.....	6,474.0	21.7%
Gold Kist, Inc.....	2,568.8	8.6
Perdue Farms, Inc.....	2,441.9	8.2
PILGRIM'S PRIDE CORPORATION.....	1,695.2	5.7
Con-Agra, Inc.....	1,648.4	5.5
Hudson Foods, Inc.....	1,573.5	5.3
Wayne Poultry Division.....	1,185.1	4.0
Cagle's, Inc.....	833.6	2.8
Seaboard Farms, Inc.....	738.4	2.5
Foster Farms.....	700.4	2.3
	-----	-----
Ten Largest Producers.....	19,859.3	66.6
All Others.....	9,965.8	33.4
	-----	-----
Total.....	29,825.1	100.0%
	=====	=====

Source: Broiler Industry, January 1997. Broiler Industry compiled the information from its 1996 survey of the largest 48 integrated U.S. chicken companies in 1996, which, according to Broiler Industry, represent approximately 99% of the production of the U.S. chicken industry.

## Chicken Consumption

In the U.S., annual per capita consumption of chicken grew from 42.5 pounds in 1976 to 71.7 pounds in 1996 while per capita consumption of beef and pork declined. The following chart illustrates, for the periods indicated, per capita consumption of chicken in the United States relative to beef and pork.

Per Capita			
Per Capita	Chicken	Pork	Beef
1976	42.5	45.5	94.2
	43.4	47	91.4
	45.6	47	87.2
	48.9	53.7	78
	48.8	57.3	76.4
1981	50.2	54.7	77.1
	50.5	49.1	76.8
	50.8	51.6	78.2
	52.2	51.3	78.1
	54	51.7	78.8
1986	55.5	48.8	78.3
	58.4	49	73.3
	58.9	52.2	72.3
	60.3	52	69.3
	63	49.8	67.8
1991	65.3	50.4	66.8
	68.2	53.1	66.5
	70.3	52.4	65.1
	71.6	53.1	67
1996	71.3	52.5	67.5
	71.7	49.1	67.7

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Source: USDA data, as reported by the National Broiler Council

Consumer awareness of the health and nutritional characteristics of chicken is a major factor influencing this growth in consumption. Such health and nutritional characteristics include lower levels of fat, cholesterol and calories per pound relative to beef and pork.

Growth in chicken consumption has also been enhanced by new products and packaging which increase convenience and product versatility. These products include breast fillets, tenderloins and strips, formed nuggets and patties and bone-in chicken parts, which are sold fresh, frozen and in various stages of preparation, including blanched, breaded and fully-cooked. Most of these products are targeted at the foodservice market, which is comprised of chain restaurant operations, frozen entree producers, institutions and distributors. According to the National Broiler Council, an industry trade association, U.S. production of these further processed products has increased from 3.0 billion ready to cook pounds in 1986 to an estimated 9.7 billion ready to cook pounds in 1996, establishing this product group as the fastest growing product group in the U.S. chicken industry. Additionally, the National Broiler Council reported that the market share of this product group has increased from 20.9% of U.S. chicken production in 1986 to an estimated 37.0% of such production in 1996.



A third factor influencing the growth of chicken consumption is the significant price advantage of chicken compared with other meats, which has increased over time. The retail price advantage of chicken relative to choice grade beef in the United States has increased from \$0.86 to \$1.83 per pound during the period from 1976 to 1996. The following chart illustrates, for the periods indicated, the average retail price of chicken in the U.S. compared to choice grade beef and pork.

Prices			
Retail Prices	Chicken	Pork	Beef
1976	59.7	134	145.7
	60.1	125.4	145.8
	66.5	143.6	178.8
	67.7	144.1	222.4
	70.9	139.4	233.6
1981	73.2	152.4	234.7
	71.4	175.4	238.4
	72.5	169.8	234.1
	81	162	235.5
	76.3	162	228.6
1986	83.5	178.4	226.8
	78.5	188.4	238.4
	85.4	183.4	250.3
	92.7	182.8	265.7
	89.9	212.6	281
1991	88	211.9	288.3
	86.9	198	284.6
	89	197.6	293.4
	90.1	198	282.9
	91.7	194.8	284.4
1996	97.3	220.9	280.2

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Source: USDA data, as reported by the National Broiler Council.

Since chickens require approximately two pounds of dry feed to produce one pound of live weight, compared to cattle and hogs, which require approximately six and four pounds, respectively, the chicken industry enjoys a cost advantage that yields a price advantage relative to other competing meats. To help sustain this price advantage, the chicken industry has implemented improved genetic, nutritional and processing technologies in an effort to minimize production costs. Despite the dramatic growth in U.S. chicken consumption over the last 20 years, the USDA reports that for every \$1.00 spent on chicken in 1996, consumers spent approximately \$1.76 on beef and \$1.01 on pork.

#### Industry Profitability

Profitability in the chicken industry can be materially affected by the commodity prices of feed grains and the commodity prices of chicken and chicken parts, each of which are determined largely by balances in supply and demand. As a result, the chicken industry as a whole has been characterized by cyclical earnings. Cyclical fluctuations in earnings of individual chicken companies can be mitigated somewhat by (i) business strategy; (ii) product mix; (iii) sales and marketing plans; and (iv) operating efficiencies.

For example, industry profitability is heavily influenced by feed costs and feed costs are dependent on a number of factors unrelated to the chicken industry. According to an industry source, feed costs have averaged approximately 45% of total production costs of whole chickens and have fluctuated substantially with the price of corn, milo and soybean meal. Assuming finished product prices and other factors remain constant, very small movements in feed costs may result in large changes in industry profits from basic chicken products. By comparison, according to the same industry source, feed costs typically average approximately 25% of total production costs of further processed and prepared chicken products and, as a result, increased emphasis on sales of such products by chicken producers reduces the sensitivity of earnings to feed cost movements.

# MEXICO

## General

As compared to the United States, the Mexican chicken industry is more fragmented with significantly more chicken producers. The Company believes that the Mexican chicken industry is in the process of consolidating, which is expected to result in a relatively smaller number of larger, more vertically integrated producers. In general, the effects of vertical integration in the Mexican chicken industry should be similar to those experienced in the past by the U.S. chicken industry, including increased price competition and reduced costs of production on a per unit basis. The Mexican chicken industry has undergone consolidation in recent years with the largest producers gaining market share through internal growth and acquisitions. The following table sets forth for 1992 and 1996 the estimated number of chickens placed by, and the estimated market share of, the eight largest Mexican producers, as reported by Seccion Nacional de Productores de Pollo Mixto de Engorda de la Union Nacional de Avicultores ("SENAPOME"), an industry association in Mexico.

	ESTIMATED NUMBER OF CHICKENS PLACED IN 1992 (IN MILLIONS)	ESTIMATED MARKET SHARE	ESTIMATED NUMBER OF CHICKENS PLACED IN 1996 (IN MILLIONS)	ESTIMATED MARKET SHARE
Bachoco.....	90.6	13.2%	160.4	18.8%
AVICOLA PILGRIM'S PRIDE DE MEXICO.....	71.8	10.5	160.2	18.8
Trasgo.....	42.0	6.1	75.5	8.9
Univasa.....	48.0	7.0	53.8	6.3
Pasta (1).....	--	--	30.2	3.5
San Antonio (1).....	--	--	23.9	2.8
Gigantes (1).....	--	--	20.5	2.4
Nochistongo (1).....	--	--	19.7	2.3
San Fandila (2).....	27.5	4.0	--	--
Oscar Hidalgo (2).....	27.1	4.0	--	--
Queretaro Group (3).....	25.1	3.7	--	--
Cocula (2).....	18.4	2.7	--	--
	-----	-----	-----	-----
Eight Largest Producers.....	350.5	51.3	544.2	63.8
All Others.....	333.3	48.7	309.0	36.2
	-----	-----	-----	-----
Total.....	683.8	100.0%	853.2	100.0%
	=====	=====	=====	=====

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- (1) Pasta, San Antonio, Gigantes and Nochistongo were not among the eight largest Mexican producers in 1992.
- (2) San Fandila, Oscar Hidalgo and Cocula were not among the eight largest Mexican producers in 1996.
- (3) The Company acquired the Queretaro Group in July 1995. See Note I of the Consolidated Financial Statements of the Company.

## Chicken Consumption

According to an industry study, on a per capita basis, the annual consumption of chicken in Mexico has increased from an estimated 22 pounds in 1982 to an estimated 34 pounds in 1996, versus 1996 consumption of approximately 71.7 pounds in the U.S. According to industry sources, on an absolute basis, production of chicken in Mexico has increased at a compounded annual rate of over 7.6% since 1988 to approximately 3.2 billion pounds in 1996. The Company believes chicken consumption increased in Mexico due to rapid population growth, increased disposable income (prior to the recession that resulted from the peso decline commencing in December 1994) and the price advantage of chicken relative to other meats.

According to an industry source, per capita chicken consumption in Mexico fell in 1995 and 1996. This decrease was largely caused by the deterioration of the Mexican economy resulting from the peso decline that began in December 1994. See "--Recent Events in the Mexican Economy." Management anticipates that Mexican chicken consumption will grow as the Mexican economy continues to strengthen.

## Industry Profitability

As in the U.S. chicken industry, profitability in the Mexican chicken industry is heavily influenced by the price of chicken and the cost of feed grains, each of which are determined largely by balances in supply and demand. The Company's experience has been that the industry's profitability is cyclical with each cycle generally having a shorter duration and exhibiting greater price fluctuations than the cycles typically experienced by the U.S. chicken industry. The Company's experience in Mexico indicates that, in contrast to the U.S. chicken industry, the Mexican chicken industry's peak chicken prices occur during the winter holiday season.

## Recent Events in the Mexican Economy

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 3, 1994 to a low of 8.16 to 1 U.S. dollar at November 14, 1995. On June 11, 1997, the Mexican peso closed at 7.97 to 1 U.S. dollar.

As a result of this decline, the Mexican economy deteriorated significantly in 1995. The Mexican gross domestic product ("GDP") decreased 6.9% in 1995 after growing 3.5% in 1994, and inflation, as measured by the Mexican consumer price index, averaged 52% in 1995 versus 7.9% in 1994. The Mexican economy improved in 1996, with GDP growing 5.1% and inflation, as measured by the Mexican consumer price index, declining to 27.7%. Mexican governmental forecasts estimate GDP growth in 1997 of 4.5% and inflation, as measured by the Mexican consumer price index, of 17.8%.

## BUSINESS

### GENERAL

Pilgrim's Pride is one of the largest producers of prepared and fresh chicken products in North America and has one of the best known brand names in the chicken industry. The Company is the fourth largest producer of chicken in the United States and one of the two largest in Mexico. Through vertical integration, the Company controls the breeding, hatching and growing of chickens and the processing, preparation, packaging and sale of its product lines. In fiscal 1996, approximately 80% of the Company's net sales were from its U.S. operations, including U.S. produced chicken products sold for export to Canada, Eastern Europe, the Far East and other world markets, with the remaining 20% arising from the Company's Mexico operations.

The Company's objectives are to increase sales, profit margins and earnings and outpace the growth of the chicken industry (i) by focusing on growth in the prepared food products market, (ii) by focusing on growth in the Mexico market and (iii) through greater utilization of the Company's existing assets. Key elements of the Company's strategy to achieve these objectives are to:

- . Focus U.S. growth on prepared foods. In recent years the Company has focused on increasing its sales of prepared foods to the foodservice market, particularly to chain restaurants and frozen entree producers. The market for prepared food products has experienced greater growth and higher margins than fresh chicken products, and the Company's sales of prepared food products to the foodservice market have grown from \$178.2 million in fiscal 1992 to \$303.9 million in fiscal 1996, a compounded annual growth rate of 14.3%. Additionally, the production and sale of prepared foods reduces the impact of feed grain costs on the Company's profitability. As further processing is performed, feed grain costs become a decreasing percentage of a product's total production cost. The Company is now the largest supplier of chicken to Wendy's and Jack-in-the-Box chain restaurants and to Stouffer's frozen entree operations. Other major prepared foods customers include KFC and Taco Bell. Prepared foods constituted 44.9% of the Company's U.S. chicken sales in fiscal 1996.
- . Focus on customer driven research & development and technology. Much of the Company's growth in prepared foods has been the result of customer-driven research & development focused on designing new products to meet customers' changing needs. The Company's research & development personnel often work directly with institutional customers in developing proprietary products. Approximately \$110.9 million of the Company's sales to foodservice customers in fiscal 1996 consisted of new products which were not sold by the Company in fiscal 1992. The Company is also a leader in utilizing advanced processing technology, which enables the Company to better meet its customers' needs for product innovation, consistent quality and cost efficiency.
- . Enhance the U.S. fresh chicken product mix through value-added, branded products. The Company's fresh chicken business is an important component of its sales and has grown from sales of \$232.1 million in fiscal 1992 to \$286.2 million in fiscal 1996. In addition to maintaining its sales of mature, traditional fresh chicken products, the Company's strategy is to shift the mix of its U.S. fresh chicken products by continuing to increase sales of higher margin, faster growing products, such as marinated chicken and chicken parts. As a result of this strategy, the Company's compounded annual growth rate of fresh chicken sales from fiscal 1992 to fiscal 1996 exceeded 5.3% while total U.S. industry sales of fresh chicken increased less than 2.0%.
- . Maintain operating efficiencies and increase capacity on a cost-effective basis. As production and sales have grown, the Company has maintained operating efficiencies by investing in state-of-the-art technology, processes and training and by making cost-effective acquisitions both in the U.S. and Mexico. As a result, according to industry data, since 1993 the Company has consistently been one of the lowest cost producers of chicken. In addition, in two recent studies of 16 production facilities of various large chicken producers, the Company's prepared foods plant ranked as either the first or second lowest cost producer of deboned meat, which is the major cost component of prepared foods.

Continuing this strategy, the Company acquired additional chicken producing assets in the U.S. in April 1997, to replace chicken purchased from third parties, at a cost that management believes is significantly less than the cost required to construct a new chicken production complex with similar capacity.

- Capitalize on international demand for U.S. chicken. Due to U.S. consumers' preference for chicken breast meat, the Company has targeted international markets to generate sales of leg quarters. The Company has also begun selling prepared food products for export, to the international divisions of its U.S. chain restaurant customers. As a result of these efforts, sales for these markets have grown from less than 1% of the Company's total U.S. chicken sales in fiscal 1992 to more than 6% in fiscal 1996. Management believes that (i) U.S. chicken exports will continue to grow as worldwide demand for high grade, low cost protein sources increases and (ii) worldwide demand for higher margin prepared food products will increase over the next five years; and accordingly, the Company is well positioned to capitalize on such growth.
- Capitalize on investments and expertise in Mexico. The Company's strategy in Mexico is focused on (i) being one of the most cost-efficient producers and processors of chicken in Mexico by applying technology and expertise utilized in the U.S. and (ii) increasing distribution of its higher margin, value added products to national retail stores and restaurants. This strategy has resulted in the Company obtaining a market leadership position, with its estimated market share in Mexico increasing from 10.5% in 1992 to 18.8% in 1996.

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 chicken, which includes refrigerated (non-frozen), whole or cut-up chicken sold to the foodservice industry either pre-marinated or non-marinated and 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 (iii) export and other, which includes parts and whole chicken, either refrigerated or frozen for U.S. export or domestic use. The Company's Mexican products consist of live, uneviscerated and eviscerated chicken.

The following table sets forth, for the periods since fiscal 1992, net sales attributable to each of the Company's primary product lines and markets served with such products. The table is based on the Company's internal sales reports and its classification of product types and customers.

	FISCAL YEAR ENDED					SIX MONTHS ENDED	
	SEPT. 26, 1992 (52 WEEKS)	OCT. 2, 1993 (53 WEEKS)	OCT. 1, 1994 (52 WEEKS)	SEPT. 30, 1995 (52 WEEKS)	SEPT. 28, 1996 (52 WEEKS)	MARCH 30, 1996 (26 WEEKS)	MARCH 29, 1997 (26 WEEKS)
	(IN THOUSANDS)						
U.S. CHICKEN SALES:							
Prepared Foods:							
Foodservice.....	\$178,185	\$183,165	\$205,224	\$240,456	\$ 303,939	\$140,390	\$162,129
Retail.....	85,700	89,822	61,068	38,683	42,946	20,896	19,476
	-----	-----	-----	-----	-----	-----	-----
Total Prepared Foods...	263,885	272,987	266,292	279,139	346,885	161,286	181,605
Fresh Chicken:							
Foodservice.....	126,472	149,197	155,294	140,201	145,052	65,937	69,568
Retail.....	105,636	100,063	125,133	138,368	141,135	65,568	75,601
	-----	-----	-----	-----	-----	-----	-----
Total Fresh Chicken....	232,108	249,260	280,427	278,569	286,187	131,505	145,169
Export and Other.....	72,724	77,709	88,437	113,414	140,614	69,351	70,501
	-----	-----	-----	-----	-----	-----	-----
Total U.S. Chicken.....	568,717	599,956	635,156	671,122	773,686	362,142	397,275
MEXICO.....	160,620	188,754	188,744	159,491	228,129	108,527	127,466
	-----	-----	-----	-----	-----	-----	-----
Total Chicken Sales....	729,337	788,710	823,900	830,613	1,001,815	470,669	524,741
SALES OF OTHER U.S.							
PRODUCTS.....	88,024	99,133	98,709	101,193	137,495	68,810	76,466
	-----	-----	-----	-----	-----	-----	-----
Total Net Sales.....	\$817,361	\$887,843	\$922,609	\$931,806	\$1,139,310	\$539,479	\$601,207
	-----	-----	-----	-----	-----	-----	-----

## UNITED STATES

The following table sets forth, since fiscal 1992, 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					SIX MONTHS ENDED	
	SEPT. 26, 1992	OCT. 2, 1993	OCT. 1, 1994	SEPT. 30, 1995	SEPT. 28, 1996	MARCH 30, 1996	MARCH 29, 1997
U.S. CHICKEN SALES:							
Prepared Foods:							
Foodservice.....	31.3%	30.5%	32.3%	35.8%	39.3%	38.8%	40.8%
Retail.....	15.1	15.0	9.6	5.8	5.6	5.8	4.9
	-----	-----	-----	-----	-----	-----	-----
Total Prepared Foods...	46.4	45.5	41.9	41.6	44.9	44.6	45.7
	-----	-----	-----	-----	-----	-----	-----
Fresh Chicken:							
Foodservice.....	22.2	24.9	24.5	20.9	18.7	18.2	17.5
Retail.....	18.6	16.7	19.7	20.6	18.2	18.1	19.0
	-----	-----	-----	-----	-----	-----	-----
Total Fresh Chicken....	40.8	41.6	44.2	41.5	36.9	36.3	36.5
	-----	-----	-----	-----	-----	-----	-----
Export and Other.....	12.8	12.9	13.9	16.9	18.2	19.1	17.8
	-----	-----	-----	-----	-----	-----	-----
Total U.S. Chicken Sales							
Mix.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====	=====	=====

## Product Types

U.S. Prepared Foods Overview. During fiscal 1996, \$346.9 million of the Company's net U.S. chicken sales were in prepared food products to foodservice and retail customers, as compared to \$263.9 million in fiscal 1992, which reflects the strategic focus for growth of the Company. The market for prepared food products has experienced, and management believes that this market will continue to experience, greater growth and higher margins than fresh chicken products. Additionally, the production and sale of prepared foods reduces the impact of feed grain costs on the Company's profitability. As further processing is performed, feed grain costs becomes a decreasing percentage of a product's total production cost.

The Company establishes prices for its prepared food products based primarily upon perceived value to the customer, production costs and prices of competing products. The majority of these products are sold pursuant to agreements with varying terms that either set a fixed price for the products or set a price according to formulas based on an underlying commodity market, subject in many cases to minimum and maximum prices.

U.S. Fresh Chicken Overview. The Company's fresh chicken business is an important component of its sales and has grown from sales of \$232.1 million in fiscal 1992 to \$286.2 million in fiscal 1996. In addition to maintaining its sales of mature, traditional fresh chicken products, the Company's strategy is to shift the mix of its U.S. fresh chicken products by continuing to increase sales of higher margin, faster growing products, such as marinated chicken and chicken parts. As a result of this strategy, the Company's compounded annual growth rate of fresh chicken sales from fiscal 1992 to fiscal 1996 exceeded 5.3% while total U.S. industry sales of fresh chicken increased less than 2.0%.

Most fresh chicken products are sold to established customers based upon certain weekly or monthly market prices reported by the USDA and other public price reporting services, plus a markup, which is dependent upon the customer's location, volume, product specifications and other factors. The Company believes its practices with respect to sales of its fresh chicken are generally consistent with those of its competitors. Prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the USDA or other public price reporting services.

Export and Other Overview. The Company's export and other products consist of whole chickens and chicken parts sold primarily in bulk, non-branded form either refrigerated to distributors in the U.S. or frozen for

distribution to export markets. Sales growth in the "Export and Other" category between fiscal 1992 and fiscal 1996 primarily reflects increased exports of chicken products. In fiscal 1996, approximately \$47 million of the Company's sales were attributable to exports of U.S. chicken. These export and other products have historically been characterized by lower prices and greater price volatility than the Company's more value-added product lines.

## Markets

**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, frozen entree producers, institutions and distributors, 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 market, 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, the Company 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 & 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 1992 through fiscal 1996 grew at a compounded annual growth rate of approximately 10.2%. Based on industry data, the Company estimates that total industry dollar sales to the foodservice market during this same period grew at a compounded annual growth rate of approximately 7.6%. The Company markets both prepared food and fresh chicken products to the foodservice industry.

**Foodservice--Prepared Foods.** The majority of the Company's sales to the foodservice market consists of prepared food products. Prepared food sales to the foodservice market were \$303.9 million in fiscal 1996 compared to \$178.2 million in fiscal 1992, a compounded annual growth rate of approximately 14.3%. The Company's prepared food 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 either 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 costs 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 principal competitor in the prepared foods market. A viable alternative supplier must be able to ensure supply, demonstrate innovation and new product development, and provide competitive pricing. The Company has been successful in its objective of becoming the alternative supplier of choice by being the primary or secondary prepared chicken supplier to many large foodservice companies because (i) it is vertically integrated, giving the Company control over its supply of chicken and chicken parts; (ii) its further processing facilities are particularly well suited to the high volume production runs necessary to meet the capacity and quality requirements of the U.S. foodservice market; and (iii) it 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.

Fifth, the Company's in-house product development group follows a customer-driven research & development focus designed to develop new products to meet customers' changing needs. The Company's research & development personnel often work directly with institutional customers in developing proprietary products. Approximately \$110.9 million of the Company's sales to foodservice customers in fiscal 1996 consisted of new products which were not sold by the Company in fiscal 1992.

Sixth, the Company is a leader in utilizing advanced processing technology, which enables the Company to better meet its customers' needs for product innovation, consistent quality and cost efficiency.

Foodservice--Fresh Chicken. The Company produces and markets fresh, refrigerated chicken for sale to U.S. 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 quality and size consistency of chicken pieces sold to the consumer.

U.S. Retail. The U.S. retail market consists primarily of grocery store chains and retail distributors. 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 regions 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 retail 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. 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 than 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.

Retail--Prepared Foods. The Company sells retail oriented prepared foods primarily to grocery store chains located in the midwestern, southwestern and western regions 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 the wholesale club industry, which is now dominated by two large national operators. Due to the highly concentrated nature of the club store business, the Company no longer serves this market and has redirected this prepared foods capacity to a more diversified customer base.

Retail--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 regions 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.

**Export and Other.** The Company's export and other products consist of whole chickens and chicken parts sold primarily in bulk, non-branded form either refrigerated to distributors in the U.S. or frozen for distribution to export markets. In recent years, the Company has de-emphasized its marketing of bulk-packaged chicken in the U.S. in favor of more value-added products and export opportunities. In the U.S., prices of these products are negotiated daily or weekly and are generally related to market prices quoted by the USDA or other public price reporting services. The Company also sells U.S. produced chicken products for export to Canada, Eastern Europe, the Far East and other world markets. Due to U.S. consumers' preference for chicken breast meat, the Company has targeted international markets to generate sales of leg quarters. The Company has also begun selling prepared food products for export to the international divisions of its U.S. chain restaurant customers. As a result of these efforts, the Company's sales for export have grown from less than 1% of its total U.S. chicken sales in fiscal 1992 to more than 6% in fiscal 1996. Management believes that (i) U.S. chicken exports will continue to grow as worldwide demand for high grade, low cost protein sources increases; and (ii) worldwide demand for higher margin prepared food products will increase over the next five years; and accordingly, the Company is well positioned to capitalize on such growth.

**Other U.S. Products.** 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 U.S. 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. U.S. egg prices are determined weekly based upon reported market prices. The U.S. egg industry has been consolidating over the last few years with the 20 largest producers accounting for more than 68% of the total number of egg laying hens in service during 1996. The Company competes with other U.S. 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.

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.

## MEXICO

### Background

The Mexican market represented approximately 20% of the Company's net sales in fiscal 1996. The Company entered the Mexican market in 1979 when it began seasonally selling eggs to the Mexican government. 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 chicken production operations in Mexico for approximately \$15.1 million. From fiscal 1988 through fiscal 1996, the Company made acquisitions and capital expenditures in Mexico totaling \$151.6 million to expand and improve such operations, including a fiscal 1995 investment of \$35.3 million for the acquisition of Union de Queretaro, et al, a group of five chicken companies located near Queretaro, Mexico. As a result of these expenditures, the Company has increased weekly production in its Mexico operations by over 350% since its original investment in fiscal 1988. The Company is now one of the two largest producers of chicken in Mexico. The Company believes its facilities are among the most technologically advanced in Mexico and that it is one of the lowest cost producers of chicken in Mexico.

### Product Types

While the market for chicken products in Mexico is less developed than in the United States, with sales attributed to fewer, more basic products, the market for value added products is increasing. The Company's strategy is to lead this trend. The products currently sold by the Company in Mexico consist primarily of basic

products such as New York dressed (whole chickens with only feathers and blood removed), live birds and value added products such as eviscerated chicken and chicken parts. The Company has increased its sales of value added products, particularly through national retail chains and restaurants, and plans to continue to do so. The Company remains opportunistic, however, utilizing its low cost production to enter markets where profitable opportunities exist. For example, the Company has significantly increased its sales of live birds since 1994 as many smaller producers exited this segment of the business as a result of the recession in Mexico.

#### Markets

The Company sells its Mexican chicken products primarily to large wholesalers and retailers. 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 both the United States and Mexico, the Company competes principally with other vertically integrated chicken companies.

In general, the competitive factors in the U.S. 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 U.S. retail 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, product quality and price are the most critical competitive factors. Additionally, NAFTA, which went into effect on January 1, 1994, requires annual reductions in tariffs for chicken and chicken products in order to eliminate such tariffs by January 1, 2003. As such tariffs are reduced, there can be no assurance that increased competition from chicken imported into Mexico from the U.S. will not have a material adverse effect on the Mexican chicken industry in general, or the Company's Mexican operations in particular.

#### OTHER ACTIVITIES

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 to independent grocers and quick service restaurants. The Company's non-poultry distribution business is conducted as an accommodation to its customers and to achieve greater economies of scale in distribution logistics. 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.

#### REGULATION

The chicken industry is subject to government regulation, particularly in the health and environmental areas. The Company's chicken processing facilities in the U.S. are subject to on-site examination, inspection and regulation by the USDA. The FDA inspects the production of the Company's feed mills in the U.S. 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

USDA and FDA. 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 material 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 USDA concerning food safety, by the FDA concerning the use of medications in feed and by the TNRCC, the ASVO and the EPA concerning the disposal of chicken by-products and wastewater discharges. 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 June 11, 1997 the Company employed approximately 9,500 persons in the U.S. and 3,200 persons in Mexico. Approximately 2,000 employees at the Company's Lufkin and Nacogdoches, Texas facilities are members of collective bargaining units represented by the United Food and Commercial Workers Union (the "UFCW"). None of the Company's other U.S. employees have union representation. The Company's collective bargaining agreements with the UFCW expire on August 10, 1998 with respect to the Company's Lufkin employees and on October 5, 1998 with respect to the Company's Nacogdoches employees. The Company believes that the terms of each of these agreements are no more favorable than those provided to its non-union U.S. employees. In Mexico, most of the Company's hourly employees are covered by collective bargaining agreements as most employees are in Mexico. The Company has not experienced any work stoppage since a two day work stoppage at the Lufkin facility in May 1993, and management believes that relations with the Company's employees are satisfactory.

#### PROPERTIES

##### Breeding and Hatching

The Company supplies all of its chicks in the U.S. by producing its own hatching eggs from domestic breeder flocks in the U.S. owned by the Company, approximately 33% of which are maintained on 43 Company-operated breeder farms. In the U.S., the Company currently owns or contracts for approximately 8.5 million square feet of breeder housing on approximately 239 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 seven hatcheries in the U.S. have an aggregate production capacity of approximately 8.2 million chicks per week. In Mexico, the Company owns seven hatcheries, which have an aggregate production capacity of approximately 3.3 million chicks per week.

##### Grow-out

The Company places its U.S. grown chicks on approximately 1,102 grow-out farms located in Texas and Arkansas. These farms provide the Company with approximately 53.5 million square feet of growing facilities. The Company operates 33 grow-out farms in the U.S. that account for approximately 8.3% of its total annual U.S. chicken capacity. The Company also places chicks with farms owned by affiliates of the Company under grow-out contracts. See "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Transactions." 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. In the U.S., the Company operates six feed mills located in Nacogdoches, Pittsburg and Center, Texas and Nashville and Hope, Arkansas. The Company currently has annual feed requirements in the U.S. of approximately 2.2 million tons and the capacity to produce approximately 2.3 million tons. The Company owns four feed mills in Mexico which produce all of the requirements of its Mexican operations. Mexican annual feed requirements are approximately 0.7 million tons with a capacity to produce approximately 0.9 million tons. In fiscal 1996, approximately 55% of the grain used by the Company in Mexico 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 foreign governments. Although the Company can and sometimes does purchase grain in forward markets, it cannot eliminate the potential adverse effect of grain price changes.

#### Processing

Once the chickens reach processing weight, they are transported by 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 six U.S. processing plants, two of which are located in Mt. Pleasant, Texas, and the remainder of which are located in Dallas, Nacogdoches and Lufkin, Texas, and DeQueen, Arkansas, have the capacity, under present USDA inspection procedures, to produce approximately 1.3 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 470 million pounds of dressed chicken annually.

#### Prepared Foods Plant

The Company's prepared foods plant in Mt. Pleasant, Texas, was constructed in 1986 and has been expanded significantly since such time. 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 seventh day 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. See "Compensation Committee Interlocks and Insider Participation." 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 8.2 million chickens weekly 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 15,068 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 U.S. property, plant and equipment in the U.S. is pledged as collateral on its secured debt.

#### 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.

# MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information relating to the current directors and executive officers of the Company:

NAME	AGE	POSITION
Lonnie "Bo" Pilgrim (1).....	69	Chairman of the Board and Chief Executive Officer
Clifford E. Butler.....	55	Vice Chairman of the Board and Executive President
Lindy M. "Buddy" Pilgrim.....	42	President, Chief Operating Officer and Director
David Van Hoose.....	54	President, Mexican Operations
Richard A. Cogdill.....	37	Executive Vice President, Chief Financial Officer, Secretary and Treasurer
Robert L. Hendrix.....	61	Executive Vice President, Operations and Director
Terry Berkenbile.....	46	Senior Vice President, Sales & Marketing, Retail and Fresh Products
Ray Gameson.....	48	Senior Vice President, Human Resources
O.B. Goolsby, Jr.....	49	Senior Vice President, Prepared Foods Operations
Michael D. Martin.....	42	Senior Vice President, DeQueen, Arkansas Complex
James J. Miner, Ph.D.....	69	Senior Vice President, Technical Services and Director
Michael J. Murray.....	38	Senior Vice President, Sales & Marketing, Prepared Foods
Robert N. Palm.....	52	Senior Vice President, Lufkin, Texas Complex
Lonnie Ken Pilgrim (1).....	38	Vice President, Director of Transportation and Director
Charles L. Black (1).....	67	Director
Robert E. Hilgenfeld (1)(2)...	72	Director
Vance C. Miller, Sr. (1)(2)...	63	Director
James G. Vetter, Jr. (1)(2)...	63	Director
Donald L. Wass, Ph.D (1).....	64	Director

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 (1) Member of the Compensation Committee.  
 (2) Member of the Audit Committee.

Lonnie "Bo" 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 1946.

Clifford E. Butler serves as Vice Chairman of the Board and Executive President. He joined the Company as Controller and Director in 1969, was named Senior Vice President of Finance in 1973, became Chief Financial Officer and Vice Chairman of the Board in July 1983 and effective January 1, 1997 he became Executive President and continues to serve as Vice Chairman of the Board.

Lindy M. "Buddy" Pilgrim serves as President and Chief Operating Officer of the Company. He was elected as Director in March 1993 and began employment in April 1993 under the title of President of U.S. Operations and Sales and 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.

David Van Hoose has been President of Mexican Operations since April 1993. He was previously Senior Vice President, Director General, Mexican Operations from August 1990 to April 1993. Mr. Van Hoose was employed by the Company 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.

Richard A. Cogdill has served as Executive Vice President, Chief Financial Officer, Secretary and Treasurer since January 1, 1997. Previously he served as Senior Vice President, Corporate Controller, from August 1992 through December 1996 and as Vice President, Corporate Controller from October 1991 through August 1992. Prior to October 1991 he was as Senior Manager with Ernst & Young LLP. He is a Certified Public Accountant.

Robert L. Hendrix has served as Executive Vice President, Operations, of the Company since March 1994 and as a Director 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. From July 1983 to March 1992, he served as a Director of the Company. He was President and Chief Operating Officer of the Company from July 1983 to September 1988. He joined the Company as Senior Vice President in September 1981 when the Company acquired Mountaire Corporation of DeQueen, Arkansas, and, prior thereto, he was Vice President of Mountaire Corporation.

Terry 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 from May 1993 to July 1994. 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 the Company; prior thereto, he worked in the processed red meat industry.

Ray Gameson has been Senior Vice President of Human Resources since October 1994. He previously served as Vice President of Human Resources from August 1993 to October 1994. From December 1991 to July 1993, he was employed at 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.

O.B. Goolsby, Jr. has been Senior Vice President, Prepared Foods Operations since August 1992. He was previously Vice President, Prepared Foods Operations from April 1986 to August 1992 and was previously employed by the Company in sales and processing from November 1969 to January 1981.

Michael D. 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.

James J. 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 served as Senior Vice President responsible for live production and feed nutrition from 1968 to April 1994. He has been a Director since the incorporation of the Company in 1968.

Michael J. 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 from August 1993 to October 1994. From 1990 to July 1993, he was employed by Cargill, Inc. Prior to that, from 1987 to 1990, he was employed by the Company as a Vice President for sales and marketing and prior thereto, he was employed by Tyson Foods, Inc.

Robert N. 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.

Lonnie Ken Pilgrim has been employed by the Company since 1977 and has served the Company as its Vice President, Director of Transportation and as a member of the Board of Directors since March 1985. He is a son of Lonnie "Bo" Pilgrim.

Charles L. Black was Senior Vice President, Branch President of NationsBank, Mt. Pleasant, Texas, from December 1981 to his retirement in February 1995. He previously was a Director of the Company from 1968 to August 1992 and has served as a director since his re-election in February 1995.

Robert E. Hilgenfeld was elected a Director in September 1986. Mr. Hilgenfeld was Senior Vice President--Marketing/Processing for the Company from 1969 to 1972 and for seventeen years prior to that worked in various sales and management positions for the Quaker Oats Company. From 1972 until April 1986, he was employed by Church's Fried Chicken Company ("Church's") as Vice President--Purchasing Group, Vice President and Senior Vice President. He was elected a Director of Church's in 1985 and retired from Church's in April 1986. Since retirement he has served as a consultant to various companies including the Company.

Vance C. Miller, Sr. was elected a Director in September 1986. Mr. Miller has been Chairman of Vance C. Miller Interests, a real estate development company formed in 1977 and has served as the Chairman of the Board and Chief Executive Officer of Henry S. Miller Cos., a Dallas, Texas real estate services firm since 1991. Mr. Miller also serves as a director of Resurgence Properties, Inc.

James G. Vetter, Jr. has practiced law in Dallas, Texas, since 1966. He is a member of the Dallas law firm of Godwin & Carlton, P.C., and has served as general counsel and a Director since 1981. Mr. Vetter is a Board Certified-Tax Law Specialist and serves as a lecturer and author in tax matters.

Donald L. Wass, Ph.D. was elected a Director of the Company in May 1987. He has been President of the William Oncken Company of Texas, a time management consulting company, since 1970.

#### COMMITTEES OF THE BOARD OF DIRECTORS

To assist in carrying out its duties, the Board of Directors has delegated certain authority to the Audit and Compensation Committees. The Board of Directors does not maintain a Nominating Committee. The members of the Audit Committee are Robert E. Hilgenfeld, Vance C. Miller, Sr. and James G. Vetter, Jr. The members of the Compensation Committee are Lonnie "Bo" Pilgrim, Robert E. Hilgenfeld, Vance C. Miller, Sr., Lonnie Ken Pilgrim, James G. Vetter, Jr., Donald L. Wass and Charles L. Black. Each Committee meets to examine various facets of the Company's operations and take appropriate action or make recommendations to the Board of Directors. The Audit Committee's responsibilities include making recommendations to the Board of Directors regarding the selection of independent public accountants and reviewing the plan and results of the audit performed by the public accountants of the Company and the adequacy of the Company's systems of internal accounting controls, and monitoring compliance with the Company's conflicts of interest and business ethics policies. The Compensation Committee reviews the Company's remuneration policies and practices and establishes the salaries of the Company's officers.

#### COMPENSATION OF DIRECTORS

The Company pays its Directors who are not employees of the Company \$4,000 per meeting attended, plus expenses.



## EXECUTIVE COMPENSATION

The Summary Compensation Table below provides certain summary information concerning compensation paid or accrued by the Company to or on behalf of the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company during fiscal 1996.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL			
		SALARY	BONUS	OTHER ANNUAL COMPENSATION	ALL OTHER COMPENSATION(1)
Lonnie "Bo" Pilgrim.....	1996	\$475,065	\$123,443	\$26,518	\$10,763
Chairman of the Board and Chief	1995	463,016	277,530	17,591	10,359
Executive Officer	1994	452,077	477,943	--	19,525
Clifford E. Butler.....	1996	253,368	65,836	7,505	6,204
Vice Chairman of the Board and	1995	246,942	148,016	7,160	9,665
Executive President	1994	241,107	254,902	7,214	5,164
Lindy M. "Buddy" Pilgrim..	1996	329,378	270,622	9,275	6,871
President and Chief Operating Officer	1995	321,022	192,419	9,145	10,273
	1994	313,440	331,374	9,173	3,974
David Van Hoose.....	1996	248,400	65,545	6,000	7,634
President, Mexican Operations	1995	242,100	145,114	6,000	10,988
	1994	162,375	171,665	3,894	3,058
Robert L. Hendrix.....	1996	248,400	64,545	10,200	7,777
Executive Vice President, Operations	1995	242,100	145,114	8,948	11,486
	1994	192,231	203,230	8,175	3,873

(1) Includes the following items of compensation:

- (i) Company's contribution to the named individual under its 401(k) Salary Deferral Plan in the following amounts: Lonnie "Bo" Pilgrim, \$52 (1996, 1995, 1994); Clifford E. Butler \$5,033 (1996), \$8,543 (1995), \$3,936 (1994); Lindy M. "Buddy" Pilgrim, \$5,028 (1996), \$8,453 (1995), \$3,974 (1994); David Van Hoose, \$4,913 (1996), \$8,315 (1995), \$2,585 (1994); and Robert L. Hendrix, \$5,028 (1996), \$8,543 (1995), \$2,677 (1994).
- (ii) Section 79 income to the named individual due to group term life insurance in excess of \$50,000 in the following amounts: Lonnie "Bo" Pilgrim, \$10,711 (1996), \$10,307 (1995), \$19,473 (1994); Clifford E. Butler, \$1,171 (1996), \$1,122 (1995), \$1,228 (1994); Lindy M. "Buddy" Pilgrim, \$1,843 (1996), \$1,820 (1995); David Van Hoose, \$2,721 (1996), \$2,673 (1995), \$473 (1994); and Robert L. Hendrix, \$2,749 (1996), \$2,943 (1995), \$1,196 (1994).

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 1996, the members of the Company's Compensation Committee were: Lonnie "Bo" Pilgrim, Robert E. Hilgenfeld, Vance C. Miller, Sr., James G. Vetter, Jr., Donald L. Wass and Charles L. Black. Lonnie Ken Pilgrim was elected to the Compensation Committee in fiscal 1997.

The Company has been and continues to be a party to certain transactions with Lonnie "Bo" Pilgrim and a law firm affiliated with James G. Vetter, Jr. These transactions, along with all other transactions between the Company and affiliated persons, require the prior approval of the Audit Committee of the Board of Directors.

The Company's transactions with Lonnie "Bo" Pilgrim have allowed the Company to obtain the use of required production facilities and equipment on terms that management believes are no less favorable to the Company than could have been arranged with unaffiliated persons. Since 1985, Mr. Pilgrim has engaged in chicken grow-out operations with the Company that involve the purchase of chicks, feed and veterinary and technical services from the Company and the grow-out of chickens to maturity at which time they are purchased by the Company. Chicks, feed and services are purchased from the Company for their fair market value, and the Company purchases the mature chickens from Mr. Pilgrim at market-quoted prices at the time of purchase. Management of the Company believes that this operation is conducted on terms no less favorable than those which could be arranged with unaffiliated persons. During fiscal years 1996, 1995 and 1994, the Company paid Mr. Pilgrim, doing business as Pilgrim Poultry G.P. ("PPGP"), \$18,112,000, \$12,721,000 and \$9,346,000, respectively, for chickens produced in his grow-out operations, and PPGP paid the Company \$18,057,000, \$12,478,000 and \$9,373,000, respectively, for chicks, feed and services. Mr. Pilgrim is the sole proprietor of PPGP.

PPGP also produces eggs for the Company. In addition to the chicken grow-out operations described above, PPGP contracts with the Company to house and care for Company flocks used for egg production and is paid an egg grower fee based on actual production. The egg grower contract between PPGP and the Company renews automatically as each expended flock of laying hens is replaced by a new flock. The contract is cancelable by either party at any time prior to the time when the then current producing flock is 48 weeks old. Flocks are normally replaced every 14 months. Management of the Company believes that these relationships are on terms no less favorable to the Company than those which could be arranged with unaffiliated persons. During fiscal years 1996, 1995 and 1994, the Company paid PPGP contract egg grower's fees of \$4,697,000, \$4,760,000 and \$5,137,000, respectively.

Since 1985, the Company has leased an airplane from Mr. Pilgrim under a lease agreement which provides for monthly lease payments of \$33,000 plus operating expenses, which terms management of the Company believes to be substantially similar to those obtainable from unaffiliated parties. During fiscal years 1996, 1995 and 1994, the Company had lease expenses of \$396,000 per year and operating expenses associated with the use of this airplane of \$88,000, \$149,000 and \$213,000, respectively.

Historically, much of the Company's debt has been guaranteed by the major stockholders of the Company. In consideration of such guarantees, the Company has paid such stockholders a quarterly fee equal to 0.25% of the average aggregate outstanding balance of such guaranteed debt. During fiscal years 1996, 1995 and 1994, the Company respectively incurred \$1,027,000, \$623,000, and \$526,000 for such guarantees and respectively paid \$807,000, \$451,000 and \$1,262,000 to Lonnie "Bo" Pilgrim and \$47,500, \$27,000 and \$74,000 to each of his three children (including Lonnie Ken Pilgrim, a Director of the Company, and Patrick Wayne Pilgrim and Greta Pilgrim Owens, each of whom is a Selling Stockholder). See "Principal and Selling Stockholders."

Godwin & Carlton, P.C., has represented and currently represents the Company in connection with a variety of legal matters. James G. Vetter, Jr., is a Director of the Company and is an Executive Vice President of Godwin & Carlton, P.C. During fiscal years 1996, 1995 and 1994, the Company paid Godwin & Carlton, P.C., legal fees of \$363,385, \$304,629 and \$235,572, respectively, in connection with such matters.

## CERTAIN RELATIONSHIPS AND TRANSACTIONS

The Company has entered into chicken grower contracts involving farms owned by certain of its officers, providing the placement of Company-owned flocks on their farms during the grow-out phase of production. The contracts are on terms substantially the same as contracts entered into by the Company with unaffiliated parties and can be terminated by either party upon completion of the grow-out of each flock. The aggregate amounts paid by the Company to its officers and Directors under grower contracts during the fiscal years 1996, 1995 and 1994 were as follows: Clifford E. Butler--\$177,908, \$184,228 and \$183,922, respectively, and James J. Miner--\$246,671, \$161,968 and \$190,348, respectively. See "Compensation Committee Interlocks and Insider Participation" for a discussion of the Company's transactions with Lonnie "Bo" Pilgrim, Lonnie Ken Pilgrim, James G. Vetter, Jr., Patrick Wayne Pilgrim and Greta Pilgrim Owens.

Archer-Daniels-Midland Company ("ADM") is one of several vendors selling feed ingredients to the Company in the ordinary course of business. During fiscal years 1996, 1995 and 1994, the Company purchased \$23.2 million, \$44.3 million and \$56.5 million of feed ingredients from ADM, respectively. The Company purchases such feed at prices based on the quoted market prices at the time of purchase. See "Principal and Selling Stockholders."

# PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Common Stock as of May 31, 1997 by: (i) each person known by the Company to own beneficially five percent or more of the outstanding Common Stock; (ii) each of the Company's directors; (iii) each of the persons named in the Summary Compensation Table; (iv) all directors and executive officers of the Company as a group; and (v) each Selling Stockholder.

NAME OF BENEFICIAL OWNER	BENEFICIAL OWNERSHIP PRIOR TO OFFERING		NUMBER OF SHARES BEING OFFERED	BENEFICIAL OWNERSHIP AFTER OFFERING	
	NUMBER OF SHARES	PERCENT		NUMBER OF SHARES	PERCENT
Lonnie "Bo" Pilgrim(a)(b)..... 110 South Texas Street Pittsburg, Texas 75686	16,773,490	60.8%	--	16,773,490	60.8%
Archer-Daniels-Midland Company(c)..... P.O. Box 1470 Decatur, Illinois	5,514,900	20.0	5,514,900	--	--
Lonnie Ken Pilgrim(b)(e).....	529,345	1.9	--	529,345	1.9
Clifford E. Butler(b).....	28,823	(d)	--	28,823	(d)
Lindy M. "Buddy" Pilgrim(b)....	21,436	(d)	--	21,436	(d)
Robert L. Hendrix(b).....	22,584	(d)	--	22,584	(d)
David Van Hoose(b).....	10,719	(d)	--	10,719	(d)
James J. Miner(b).....	13,034	(d)	--	13,034	(d)
James G. Vetter, Jr.....	1,550	(d)	--	1,550	(d)
Donald L. Wass.....	300	(d)	--	300	(d)
All executive officers and directors as a group (18) persons.....	17,310,795	62.7		17,310,795	62.7
Patrick Wayne Pilgrim(f).....	391,687	1.44	370,982	20,705	(d)
Greta Pilgrim Owens(g).....	422,829	1.53	375,500	47,329	(d)

- - - - -
- (a) Includes 60,387 shares of Common Stock held of record by Pilgrim Family Trust I, an irrevocable trust dated June 16, 1987, for the benefit of Lonnie "Bo" Pilgrim's surviving spouse and children, of which Lonnie Ken Pilgrim and Patty R. Pilgrim, Lonnie "Bo" Pilgrim's wife, are co-trustees, and 60,386 shares of Common Stock held of record by Pilgrim Family Trust II, an irrevocable trust dated December 23, 1987, for the benefit of Lonnie "Bo" Pilgrim and his children, of which Lonnie "Bo" Pilgrim and Lonnie Ken Pilgrim are co-trustees. Lonnie "Bo" Pilgrim disclaims any beneficial interest in the shares held by his children.
- (b) Includes shares held in trust by the Company's 401(k) Salary Deferral Plan.
- (c) As reported in its Statement of Changes in Beneficial Ownership on Form 4 dated December 1, 1993. See "Certain Relationships and Transactions."
- (d) Less than 1%.
- (e) Includes 6,465 shares held by his wife, and 60,387 shares and 60,386 shares held by Pilgrim Family Trust I and Pilgrim Family Trust II, respectively, for both of which Lonnie Ken Pilgrim serves as a co-trustee. Also, includes 25,350 shares held in two irrevocable trusts dated December 15, 1994 and October 31, 1989 of which Lonnie Ken Pilgrim is a co-trustee for the benefit of his children. Lonnie Ken Pilgrim disclaims any beneficial interest in the foregoing shares.
- (f) Includes 20,705 shares held in an irrevocable trust of which Patrick Wayne Pilgrim is the co-trustee for the benefit of his child. Patrick Wayne Pilgrim disclaims any beneficial interest in the foregoing shares. See "Compensation Committee Interlocks and Insider Participation."
- (g) Includes 8,779 shares held by her husband. Also, includes 38,550 shares held in two irrevocable trusts dated December 15, 1989 and December 21, 1990 of which Greta Pilgrim Owens is a co-trustee for the benefit of her children. Greta Pilgrim Owens disclaims any beneficial interest in the foregoing shares. See "Compensation Committee Interlocks and Insider Participation."

All of the individuals listed in the preceding table are officers or directors of the Company other than Patrick Wayne Pilgrim and Greta Pilgrim Owens.

## DESCRIPTION OF CAPITAL STOCK

### GENERAL

The Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), of the Company authorizes the issuance of 45 million shares of Common Stock, and 5 million shares of preferred stock, par value \$0.01 per share ("Preferred Stock").

### COMMON STOCK

Holders of Common Stock are entitled to one vote for each share on each matter submitted to a vote of stockholders. All outstanding shares of Common Stock are fully paid, validly issued and nonassessable and the holders of Common Stock do not have cumulative voting rights or preemptive rights to subscribe for or to purchase any additional securities issued by the Company. Upon liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in the distribution of assets remaining after payment of debts and expenses and the amounts payable upon liquidation for any Preferred Stock then outstanding. There are no conversion, sinking fund or redemption provisions, or any restrictions on alienability with respect to the Common Stock.

Subject to the rights of the holders of Preferred Stock, if any, the holders of Common Stock are entitled to receive dividends, when and if declared by the Board of Directors of the Company, out of funds legally available therefor. The Company's existing or future credit agreements may impose contractual limitations on the payment of dividends on the Common Stock. See "Price Range of Common Stock and Dividends." The declaration and payment of dividends are at the discretion of the Board of Directors.

### PREFERRED STOCK

The authorized Preferred Stock is issuable from time to time, in one or more series, at the discretion of the Board of Directors of the Company. The Board of Directors has authority, without further stockholder approval, to provide for the issuance of Preferred Stock in one or more series, and to determine the designations, rights, preferences and limitations of such series, including the relative ranking with other series, the voting rights, if any, the dividend rate, the redemption and liquidation rights, the conversion rights, if any, and any other rights, preferences, qualifications, limitations or restrictions. Although the Board of Directors has no present intention to issue Preferred Stock, the issuance of shares of Preferred Stock, or the issuance of rights to purchase Preferred Stock, may have the effect of delaying, deferring, or preventing a change in control of the Company or may increase or decrease the number of shares constituting each series.

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Harris Trust and Savings Bank.

## UNDERWRITING

Subject to the terms and conditions of an underwriting agreement, dated , 1997 (the "Underwriting Agreement"), the underwriters named below (the "Underwriters"), who are represented by Donaldson, Lufkin & Jenrette Securities Corporation and A.G. Edwards & Sons, Inc. (the "Representatives"), have severally agreed to purchase from the Selling Stockholders the respective number of shares of Common Stock set forth opposite their names below.

UNDERWRITERS	NUMBER OF SHARES
Donaldson, Lufkin & Jenrette Securities Corporation.....	
A.G. Edwards & Sons, Inc.....	
	-----
Total.....	6,261,382
	=====

The Underwriting Agreement provides that the obligations of the several Underwriters to purchase and accept delivery of the shares of Common Stock offered hereby are subject to approval by their counsel of certain legal matters and to certain other conditions. The Underwriters are obligated to purchase and accept delivery of all the shares of Common Stock offered hereby (other than those shares covered by the over-allotment option described below) if any are purchased.

The Underwriters initially propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain dealers (including the Underwriters) at such price less a concession not in excess of \$ per share. The Underwriters may allow, and such dealers may re-allow, to certain other dealers a concession not in excess of \$ per share. After the initial offering of the Common Stock, the public offering price and other selling terms may be changed by the Representatives.

The Company has granted to the Underwriters an option exercisable within 30 days after the date of this Prospectus to purchase, from time to time, in whole or in part, up to an aggregate of 939,207 additional shares of Common Stock at the initial public offering price less underwriting discounts and commissions. The Underwriters may exercise such option solely to cover overallotments, if any, made in connection with the Offering. To the extent that the Underwriters exercise such option, each Underwriter will become obligated, subject to certain conditions, to purchase their pro rata portion of such additional shares based on such Underwriter's percentage underwriting commitment as indicated in the preceding table.

The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

Each of the Company, its executive officers and directors and certain stockholders of the Company (including the Selling Stockholders) has agreed, subject to certain exceptions, (i) not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any Common Stock (regardless of whether any of the transactions described in clause (i) or (ii) is to be settled by the delivery of Common Stock, or such other securities, in cash or otherwise) for a period of 90

days after the date of this Prospectus without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation. In addition, during such period, the Company has also agreed not to file any registration statement with respect to, and each of its executive officers, directors and certain stockholders of the Company (including the Selling Stockholders) has agreed not to make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation.

The Common Stock is traded on the New York Stock Exchange under the symbol "CHX".

Other than in the United States, no action has been taken by the Company, the Selling Stockholders or the Underwriters that would permit a public offering of the shares of Common Stock offered hereby in any jurisdiction where action for that purpose is required. The shares of Common Stock offered hereby may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisements in connection with the offer and sale of any such shares of Common Stock be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this Prospectus comes are advised to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this Prospectus. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of Common Stock offered hereby in any jurisdiction in which such an offer or a solicitation is unlawful.

In connection with the Offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Stock. Specifically, the Underwriters may over-allot the Offering, creating a syndicate short position. In addition, the Underwriters may bid for and purchase shares of Common Stock in the open market to cover syndicate short positions or to stabilize the price of the Common Stock. These activities may stabilize or maintain the market price of the Common Stock above independent market levels. The Underwriters are not required to engage in these activities and may end these activities at any time.

#### LEGAL MATTERS

The validity of the Common Stock to be offered hereby will be passed upon for the Company by Baker & McKenzie, Dallas, Texas. Certain legal matters in connection with the Offering will be passed upon for the Underwriters by Weil, Gotshal and Manges LLP, Dallas, Texas.

#### EXPERTS

The consolidated financial statements of the Company as of September 28, 1996 and September 30, 1995, and for each of the three years in the period ended September 28, 1996, appearing in this Prospectus and the Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

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PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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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 at September 30, 1995 and September 28, 1996 and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the three years in the period ended September 28, 1996. Our audits also included Schedule II--Valuation and Qualifying Accounts. 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 September 28, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 28, 1996 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 herein.

ERNST & YOUNG LLP

Dallas, Texas  
November 5, 1996

CONSOLIDATED BALANCE SHEETS

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	(UNAUDITED) MARCH 29, 1997
	-----	-----	-----
	(IN THOUSANDS)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents.....	\$ 11,892	\$ 18,040	\$ 7,717
Trade accounts and other receivables, less allowance for doubtful accounts.....	60,031	65,887	69,256
Inventories.....	110,404	136,866	137,926
Deferred income taxes.....	9,564	6,801	7,001
Prepaid expenses.....	526	907	744
Other current assets.....	953	757	211
	-----	-----	-----
Total Current Assets.....	193,370	229,258	222,855
OTHER ASSETS.....	20,918	18,827	21,801
PROPERTY, PLANT AND EQUIPMENT			
Land.....	17,637	19,818	19,970
Buildings, machinery and equipment...	383,076	409,191	411,005
Autos and trucks.....	32,227	32,503	32,146
Construction-in-progress.....	9,841	5,160	11,578
	-----	-----	-----
	442,781	466,672	474,699
Less accumulated depreciation.....	159,465	178,035	187,776
	-----	-----	-----
	283,316	288,637	286,923
	-----	-----	-----
	\$497,604	\$536,722	\$531,579
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
-----			
CURRENT LIABILITIES			
Notes payable to banks.....	\$ 13,000	\$ 27,000	\$ 24,000
Accounts payable.....	55,658	71,354	57,789
Accrued expenses.....	31,130	33,599	32,895
Current maturities of long-term debt.	5,187	8,850	9,645
	-----	-----	-----
Total Current Liabilities.....	104,975	140,803	124,329
LONG-TERM DEBT, LESS CURRENT			
MATURITIES.....	182,988	198,334	193,546
DEFERRED INCOME TAXES.....	56,725	53,608	55,496
MINORITY INTEREST IN SUBSIDIARY.....	842	842	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, 1996 and 1997.....	276	276	276
Additional paid-in capital.....	79,763	79,763	79,763
Retained earnings.....	72,035	63,096	77,327
	-----	-----	-----
Total Stockholders' Equity.....	152,074	143,135	157,366
	-----	-----	-----
Commitments and Contingencies.....	--	--	--
	-----	-----	-----
	\$497,604	\$536,722	\$531,579
	=====	=====	=====

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

	YEARS ENDED			(UNAUDITED) SIX MONTHS ENDED	
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
NET SALES.....	\$922,609	\$931,806	\$1,139,310	\$539,479	\$601,207
COSTS AND EXPENSES:					
Cost of sales.....	811,782	857,662	1,068,670	502,460	547,855
Selling, general and administrative.....	51,129	49,214	49,136	24,510	27,378
	862,911	906,876	1,117,806	526,970	575,233
Operating Income....	59,698	24,930	21,504	12,509	25,974
OTHER EXPENSES (INCOME):					
Interest expense, net.	19,173	17,483	21,539	10,331	10,733
Foreign exchange (gain) loss.....	(257)	5,605	1,275	1,222	536
Miscellaneous, net....	(1,666)	(249)	(1,357)	(577)	(2,906)
	17,250	22,839	21,457	10,976	8,363
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY CHARGE.....	42,448	2,091	47	1,533	17,611
Income tax expense.....	11,390	10,058	4,551	2,792	2,552
Net income (loss) before extraordinary charge...	31,058	(7,967)	(4,504)	(1,259)	15,059
Extraordinary charge- early repayment of debt, net of tax.....	--	--	(2,780)	(2,780)	--
NET INCOME (LOSS)...	\$ 31,058	\$ (7,967)	\$ (7,284)	\$ (4,039)	\$ 15,059
Net income (loss) per common share before extraordinary charge...	\$ 1.13	\$ (0.29)	\$ (0.16)	\$ (.05)	\$ 0.55
Extraordinary charge per common share.....	--	--	(0.10)	(0.10)	--
NET INCOME (LOSS) PER COMMON SHARE.....	\$ 1.13	\$ (0.29)	\$ (0.26)	\$ (.15)	\$ 0.55

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
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 (\$0.06 per share).....				(1,655)	(1,655)
Balance at September 30, 1995..	27,589,250	276	79,763	72,035	152,074
Net loss for year.....				(7,284)	(7,284)
Cash dividends declared (\$0.06 per share).....				(1,655)	(1,655)
Balance at September 28, 1996..	27,589,250	276	79,763	63,096	143,135
Net income for six months ended March 29, 1997 (unaudited).....				15,059	15,059
Cash dividends declared (\$0.03 per share) (unaudited).....				(828)	(828)
Balance at March 29, 1997 (unaudited).....	27,589,250	\$276	\$79,763	\$77,327	\$157,366
	=====	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

	YEARS ENDED			(UNAUDITED) SIX MONTHS ENDED	
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	MARCH 30, 1996	MARCH 29, 1997
	( IN THOUSANDS )				
CASH FLOWS FROM					
OPERATING ACTIVITIES:					
Net income (loss).....	\$31,058	\$(7,967)	\$(7,284)	\$(4,039)	\$15,059
Adjustments to reconcile net income (loss) to cash provided by operating activities:					
Depreciation and amortization.....	25,177	26,127	28,024	14,639	14,229
Gain on property disposals.....	(608)	(263)	(211)	(221)	46
Provision for doubtful accounts.....	2,666	1,133	1,003	206	(779)
Deferred income taxes.	6,720	3,785	(354)	(3,214)	1,689
Extraordinary charge..	--	--	4,587	4,587	--
Changes in operating assets and liabilities:					
Accounts and other receivables.....	3,412	(3,370)	(6,858)	(5,242)	(5,783)
Inventories.....	(8,955)	(4,336)	(24,830)	(18,845)	(1,061)
Prepaid expenses.....	(459)	1,066	(674)	(1,828)	703
Accounts payable and accrued expenses.....	1,742	15,249	18,165	3,475	(14,269)
Other.....	(89)	1,288	(177)	(186)	(162)
Net Cash Flows Provided by (Used in) Operating Activities.....	60,664	32,712	11,391	(10,668)	9,672
INVESTING ACTIVITIES:					
Acquisitions of property, plant and equipment.....	(25,547)	(35,194)	(34,314)	(23,937)	(12,162)
Business acquisitions					
--property, plant and equipment.....	--	(29,519)	--	--	--
--other net assets..	--	(6,659)	--	--	--
Proceeds from property disposal.....	2,103	541	1,468	1,314	330
Other, net.....	(128)	(758)	312	361	(258)
Net Cash Used in Investing Activities...	(23,572)	(71,589)	(32,534)	(22,262)	(12,090)
FINANCING ACTIVITIES:					
Proceeds from notes payable to banks....	7,000	15,000	91,000	56,500	31,500
Repayments on notes payable to banks....	(19,000)	(2,000)	(77,000)	(43,500)	(34,500)
Proceeds from long- term debt.....	31	45,030	51,028	50,028	--
Payments on long-term debt.....	(16,253)	(16,202)	(32,140)	(29,001)	(4,068)
Extraordinary charge, cash items.....	--	--	(3,920)	(3,920)	--
Cash dividends paid...	(2,069)	(1,655)	(1,655)	(828)	(828)
Net Cash Provided by (Used in) Financing Activities.....	(30,291)	40,173	27,313	29,279	(7,896)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS.....	(83)	(648)	(22)	(13)	(9)
Increase (decrease) in cash and cash equivalents.....	6,718	648	6,148	(3,664)	(10,323)
Cash and cash equivalents at beginning of period..	4,526	11,244	11,892	11,892	18,040
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$11,244	\$11,892	\$18,040	\$ 8,228	\$ 7,717
	=====	=====	=====	=====	=====

Supplemental disclosure  
information:

Cash paid during the  
period for:

Interest (net of  
amount

capitalized).....	\$19,572	\$16,764	\$20,310	\$ 9,530	\$10,961
Income taxes.....	\$ 7,108	\$ 5,128	\$ 4,829	\$ 4,014	\$ 1,807

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

NOTE A--BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pilgrim's Pride Corporation 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 one of the two largest producers 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's chicken products consist primarily of prepared foods, which include portion-controlled breast fillets, tenderloins and strips, formed nuggets and patties and bone-in chicken parts, fresh foodservice chicken, prepackaged chicken, and bulk packaged chicken.

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of Pilgrim's Pride Corporation and its wholly and majority 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). In recent years the Company has experienced losses in Mexico primarily as a result of currency devaluations and other economic factors. As of September 28, 1996, the Company has net Mexican assets of \$139.9 million.

**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 \$4.0 million in 1995 and 1996, 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 \$23.7 million, \$24.8 million and \$26.8 million in 1994, 1995 and 1996, 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.

**USE OF ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNAUDITED INTERIM FINANCIAL INFORMATION: The unaudited consolidated financial statements at March 29, 1997 and for the six months ended March 30, 1996 and March 29, 1997 are unaudited; however, in the opinion of management such financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position at March 29, 1997 and results of operations and cash flows for the six months ended March 30, 1996 and March 29, 1997. Operating results for the six months ended March 29, 1997 are not necessarily indicative of the results that may be expected for the year ending September 27, 1997.

On April 15, 1997, the Company secured an additional \$35 million in secured term borrowing capacity from an existing lender at rates of 2.0% over LIBOR, with monthly principal and interest payments maturing in February 2006. On June 9, 1997, the Company secured an additional \$10 million in secured term borrowing capacity from a group of existing lenders at rates equal to those under its existing \$100 million revolving credit facility and maturing in June 1999. As of June 11, 1997, \$20 million had been borrowed under such facilities.

NOTE B--INVENTORIES

Inventories consist of the following:

	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996	(UNAUDITED) MARCH 29, 1997
	-----	-----	-----
	(IN THOUSANDS)		
Live chickens and hens.....	\$ 55,353	\$ 66,248	\$ 64,632
Feed, eggs and other.....	32,087	39,804	38,208
Finished chicken products.....	22,964	30,814	35,086
	-----	-----	-----
	\$110,404	\$136,866	\$137,926
	=====	=====	=====

NOTE C--NOTES PAYABLE AND LONG-TERM DEBT

The Company maintains a \$100 million domestic credit facility with various banks providing short-term lines of credit at interest rates of approximately one and three-quarters percent above LIBOR. Domestic inventories and trade accounts receivable of the Company are pledged as collateral on this facility. The Company also maintains a \$10 million credit facility for its Mexican operations with a bank providing short-term lines of credit at interest rates of approximately two and three-quarters percent above LIBOR. The Company has a negative pledge of Mexican inventories and accounts receivable related to this facility. At September 28, 1996, availability under these lines totaled \$73.8 million. The weighted average interest rate on the Company's short-term borrowings as of September 28, 1996, was 7.2%. 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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

YEAR ----	AMOUNT -----
	(IN THOUSANDS)
1997.....	8,850
1998.....	9,741
1999.....	9,864
2000.....	24,692
2001.....	5,930

During 1996, the Company retired certain debt prior to its scheduled maturity. These repayments resulted in an extraordinary charge of \$2.8 million, net of \$1.8 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 1994, 1995 and 1996 was \$20.1 million, \$19.1 million and \$23.4 million, respectively. Interest related to new construction capitalized in 1994, 1995 and 1996 was \$0.5 million, \$0.6 million and \$1.3 million, respectively.

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

	SEPTEMBER 30, 1995		SEPTEMBER 28, 1996	
	CARRYING AMOUNTS	FAIR VALUE	CARRYING AMOUNTS	FAIR VALUE
	(IN THOUSANDS)			
Senior subordinated notes due August 1, 2003, interest at 10 7/8% (effective rate of 11 1/8%) payable in semi-annual installments, less discount of \$1,181,000 and \$1,032,000 in 1995 and 1996, respectively.....	\$ 98,819	\$ 96,219	\$ 98,968	\$ 100,219
Notes payable to an insurance company at 7.21%, payable in monthly installments of \$455,305 including interest, plus one final balloon payment at maturity on February 28, 2006.....	--	--	48,896	46,063
Notes payable to bank, interest at LIBOR plus 1.8% in 1995 and 2.0% in 1996, respectively, with principal payments of \$167,000 and \$950,500 in quarterly installments, interest paid monthly, in fiscal year 1996 and thereafter, respectively, plus one final balloon payment at maturity on June 30, 2000.....	30,233	30,233	29,732	29,732
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	27,080	27,080
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	--	--
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	--	--
Other notes payable.....	3,564	3,745	2,508	2,547
	188,175	\$ 187,958	207,184	\$ 205,641
Less current maturities.....	5,187		8,850	
	\$182,988		\$ 198,334	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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

NOTE D--INCOME TAXES

Income (loss) before income taxes and extraordinary charge after allocation of certain expenses to foreign operations for 1994, 1995 and 1996 was \$33.9 million, \$29.9 million and \$16.3 million, respectively, for domestic operations, and \$8.6 million, \$(27.8) million and \$(16.3) million, respectively, for foreign operations. The provisions for income taxes are based on pretax financial statement income.

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

	YEARS ENDED		
	OCT. 1, 1994	SEPT. 30, 1995	SEPT. 28, 1996
	(IN THOUSANDS)		
Current:			
Federal.....	\$ 4,573	\$ 5,215	\$3,005
Foreign.....	423	638	817
Other.....	(326)	420	1,083
	-----	-----	-----
	4,670	6,273	4,905
Deferred:			
Reinstatement of deferred taxes through utilization of tax credits and net operating losses.....	6,589	3,542	397
Accelerated tax depreciation.....	1,002	215	(195)
Expenses deductible in a different year for tax and financial reporting purposes.....	(580)	411	238
Other, net.....	(291)	(383)	(794)
	-----	-----	-----
	6,720	3,785	(354)
	-----	-----	-----
	\$11,390	\$10,058	\$4,551
	=====	=====	=====

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

	YEARS ENDED		
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996
Federal income tax rate..	35.0%	35.0%	35.0%
State tax rate, net.....	2.3	40.1	1,674.1
Effect of Mexican loss being non-deductible in U.S.....	--	411.1	6,252.3
Difference in U.S. statutory tax rate and Mexican effective tax rate.....	(10.7)	--	--
Effect of Mexican asset based minimum tax.....	--	--	1,649.3
Other, net.....	0.2	(5.2)	0.2
	-----	-----	-----
	26.8%	481.0%	9,610.9%
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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    SEPTEMBER 28, 1996  
-----  
(IN THOUSANDS)

Deferred tax liabilities:		
Tax over book depreciation.....	\$24,221	\$24,027
Prior use of cash accounting.....	33,572	33,418
Other.....	965	930
	-----	-----
Total deferred tax liabilities....	58,758	58,375
	-----	-----
Deferred tax assets:		
AMT credit carryforward.....	2,972	4,034
General business credit carryforward.....	1,459	1,459
Expenses deductible in different years.....	7,166	7,534
	-----	-----
Total deferred tax asset.....	11,597	11,568
	-----	-----
Net deferred tax liabilities....	\$47,161	\$46,807
	=====	=====

On January 1, 1994, the Company completed a series of restructuring of activities in Mexico which 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 and 1996 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 28, 1996, the cumulative undistributed earnings of these subsidiaries were approximately \$19.1 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 28, 1996, approximately \$4.0 million of alternative minimum tax credits were available to offset future taxable income. 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 \$2.6 million, \$1.9 million and \$1.8 million in 1994, 1995 and 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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		
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996
	(IN THOUSANDS)		
Contract egg grower fees to major stockholder....	5,137	4,760	4,697
Chick, feed and other sales to major stockholder.....	9,373	12,478	18,057
Live chicken purchases from major stockholder..	9,346	12,721	18,112
Purchases of feed ingredients from Archer Daniels Midland Company.	56,499	44,250	23,226

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 1994, 1995 and 1996. Operating expenses were \$213,000, \$149,000 and \$88,000 in 1994, 1995 and 1996, respectively.

Expenses incurred for the guarantee of certain debt by stockholders were \$526,000, \$623,000 and \$1,027,000 in 1994, 1995 and 1996, respectively.

NOTE G--COMMITMENTS AND CONTINGENCIES

The Consolidated Statements of Income (Loss) included rental expense for operating leases of approximately \$10.1 million, \$9.8 million and \$10.1 million in 1994, 1995 and 1996, respectively. The Company's future minimum lease commitments under noncancelable operating leases are as follows:

	AMOUNT
YEAR	
----	(IN THOUSANDS)
1997.....	8,787
1998.....	8,084
1999.....	7,323
2000.....	6,643
2001.....	5,837
Thereafter.....	11,336

At September 28, 1996, the Company had \$9.2 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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		
	OCTOBER 1, 1994	SEPTEMBER 30, 1995	SEPTEMBER 28, 1996
	(IN THOUSANDS)		
Sales to unaffiliated customers:			
United States.....	\$733,865	\$772,315	\$ 911,181
Mexico.....	188,744	159,491	228,129
	\$922,609	\$931,806	\$1,139,310
Operating income (loss):			
United States.....	\$ 46,421	\$ 41,923	\$ 29,705
Mexico.....	13,277	(16,993)	(8,201)
	\$ 59,698	\$ 24,930	\$ 21,504
Identifiable assets:			
United States.....	\$302,911	\$328,489	\$ 363,543
Mexico.....	135,772	169,115	173,179
	\$438,683	\$497,604	\$ 536,722

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 one of the two largest chicken operations 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 1994 and 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES

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 SEPTEMBER 28, 1996						
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR	
(IN THOUSANDS, EXCEPT PER SHARE DATA)						
Net sales.....	\$ 267,475	\$ 272,004	\$294,339	\$305,492	\$1,139,310	
Gross profit.....	20,972	16,047	17,384	16,237	70,640	
Operating income (loss).....	8,825	3,684	5,454	3,541	21,504	
Extraordinary charge(a).....	--	(2,780)	--	--	(2,780)	
Net income (loss).....	(704)	(3,335)	1,007	(4,252)	(7,284)	
Per share:						
Net income (loss) before extraordinary charge.....	(0.03)	(0.02)	0.04	(0.15)	(0.16)	
Extraordinary charge.....	--	(0.10)	--	--	(0.10)	
Net income (loss).....	(0.03)	(0.12)	0.04	(0.15)	(0.26)	
Cash dividends.....	0.015	0.015	0.015	0.015	0.06	
Market price:						
High.....	8 3/8	7 5/8	9	9	9	
Low.....	6 5/8	6 3/4	6 3/4	7 1/2	6 5/8	
YEAR ENDED SEPTEMBER 27, 1997						
	FIRST QUARTER	SECOND QUARTER				
(IN THOUSANDS, EXCEPT PER SHARE DATA)						
Net sales.....	\$ 297,806	\$ 303,401				
Gross profit.....	30,267	23,085				
Operating income (loss).....	16,314	9,660				
Net income (loss).....	10,105	4,954				
Per share:						
Net income (loss).....	0.37	0.18				
Cash dividends.....	0.015	0.015				
Market price:						
High.....	9	12 1/8				
Low.....	7 3/4	8 5/8				

(a) The extraordinary charge of \$2.8 million, net of tax, is the result of the early repayment of 10.49% and 9.55% senior secured debt payable to an insurance company. (See Note C).

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 NO DEALER, SALESPERSON, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, THE UNDERWRITERS, OR ANY OTHER PERSON. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE COMMON STOCK TO WHICH IT RELATES OR AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

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 6,261,382 SHARES

LOGO

COMMON STOCK

-----  
 PROSPECTUS  
 -----

DONALDSON, LUFKIN & JENRETTE  
 SECURITIES CORPORATION  
 A.G. EDWARDS & SONS, INC.

, 1997  
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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The table below sets forth the estimated expenses to be incurred in connection with the issuance and distribution of the Common Stock to be registered and offered hereby. Such expenses will be paid by the Selling Stockholders; provided that if the Underwriters exercise their over-allotment option, a pro rata portion of such expenses shall be payable by the Company based upon the relative number of shares of Common Stock sold by the Company and the Selling Stockholders.

SEC Registration Fee.....	\$ 7,753
NASD Filing Fee.....	8,871
New York Stock Exchange Listing Fee.....	1,500
Accounting Fees and Expenses.....	50,000
Transfer Agent and Registrar Fees.....	1,000
Printing, Distribution and Engraving Expenses.....	50,000
Legal Fees and Expenses (other than Blue Sky).....	100,000
Blue Sky (including legal fees and expenses).....	10,000
Miscellaneous.....	20,876
	-----
Total.....	\$250,000
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Bylaws of the Company provide that the Company shall indemnify and hold harmless any present or former officer or director or any officer or director who is or was serving at the request of the Company as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, trust, employee benefit plan or other enterprise, from and against expenses actually incurred by such person in connection with any suit to which they are made, or are threatened to be made, a party, or to which they are a witness without being named a party, if it is determined that he acted in good faith and reasonably believed (i) in the case of conduct in his official capacity on behalf of the Company, that his conduct was in the Company's best interests, (ii) in all other cases, that his conduct was not opposed to the best interests of the Company, and (iii) with respect to any criminal action, that he had no reasonable cause to believe his conduct was unlawful; provided, however, that in the event a determination is made that such person is liable to the Company or is found liable on the basis that a personal benefit was improperly received by such person, the indemnification is limited to reasonable expenses actually incurred by such person in connection with the suit and shall not be made in respect of any suit in which such person shall have been found liable for willful or intentional misconduct in the performance of his duty to the Company.

Pursuant to Section 145 of the General Corporation Law of the State of Delaware ("Delaware Code"), the Company generally has the power to indemnify its present and former directors, officers, employees and agents against expenses incurred by them in connection with any suit to which they are, or are threatened to be made, a party by reason of their serving in such positions so long as they acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of the Company, and with respect to any criminal action, they had no reasonable cause to believe their conduct was unlawful. The statute also expressly provides that the power to indemnify authorized thereby is not exclusive of any rights granted under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise.

According to the Bylaws of the Company and Section 145 of the Delaware Code, the Company has the power to purchase and maintain insurance for such persons.

The above discussion of the Company's Bylaws and of Section 145 of the Delaware Code is not intended to be exhaustive and is qualified in its entirety by such Bylaws and the Delaware Code.

In addition, the Company and certain other persons may be entitled, pursuant to the Underwriting Agreement, to indemnification by the Underwriters and the Selling Stockholders against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"), or to contribution with respect to payments which the Company or such persons may be required to make in respect thereof.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

None.

#### ITEM 16. EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
1.1	Form of Underwriting Agreement.*
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	Amended and Restated Corporate Bylaws of Pilgrim's Pride Corporation, a Delaware Corporation, effective December 4, 1996 (incorporated by reference from Exhibit 3.3 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
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).
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4.3	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).
4.4	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).
4.5	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).
5.1	Opinion and Consent of Baker & McKenzie.*
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	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).
10.4	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).
10.5	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).
10.6	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).

EXHIBIT  
NUMBER

DESCRIPTION

- 10.7 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).
- 10.8 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. (incorporated by reference from Exhibit 10.33 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.9 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. (incorporated by reference from Exhibit 10.36 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.10 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. (incorporated by reference from Exhibit 10.37 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.11 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 (incorporated by reference from Exhibit 10.38 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.12 Revolving Credit Loan Agreement dated March 27, 1995 by and among the Company and Agricultural Production Credit Association (incorporated by reference from Exhibit 10.39 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.13 First Supplement to Revolving Credit Loan Agreement dated July 6, 1995 by and among the Company and Agricultural Production Credit Association (incorporated by reference from Exhibit 10.40 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.14 Credit Agreement dated as of January 31, 1996 is entered into among Pilgrim's Pride, S.A. de C.V., and Internationale Nederlanden (U.S.) Capital Corporation, Pilgrim's Pride Corporation, Avicola Pilgrim's Pride de Mexico, S.A. de C.V., Compania Incubadora Avicola Pilgrim's Pride, S.A. de C.V., Productora Y Distribuidora de Alimentos, S.A. de C.V., Inmobiliaria Avicola Pilgrim's Pride, S. De R.L. de C.V. and CIA. Incubadora Hidalgo, S.A. de C.V. (incorporated by reference from Exhibit 10.42 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.15 Fourth Amendment to Secured Credit Agreement dated June 6, 1996 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 Wells Fargo Bank Texas, N.A., successor to First Interstate Bank of Texas, N.A. (incorporated by reference from Exhibit 10.43 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.16 Second Supplement to Revolving Credit Loan Agreement dated June 28, 1996 by and among the Company and Agricultural Production Credit Association (incorporated by reference from Exhibit 10.44 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
- 10.17 Third Supplement to Revolving Credit Loan Agreement dated August 22, 1996 by and among the Company and Agricultural Production Credit Association (incorporated by reference from Exhibit 10.45 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).

EXHIBIT  
NUMBER

DESCRIPTION

- 10.18 Note Purchase Agreement dated April 14, 1997 by and between John Hancock Mutual Life Insurance Company and Signature 1A (Cayman), Ltd. and the Company (incorporated by reference from Exhibit 10.46 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.19 Agreement between Pilgrim's Pride Corporation and Certain Shareholders dated November 28, 1996 (incorporated by reference from Exhibit 10.47 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.20 Aircraft Lease Extension Agreement between B.P. Leasing Co., (L. A. Pilgrim, Individually) and Pilgrim's Pride Corporation, (formerly Pilgrim Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.21 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.22 Commercial Egg Grower Contract dated May 7, 1997 between Pilgrim's Pride Corporation and Pilgrim Poultry, G.P. (incorporated by reference from Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
- 10.23 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry, G.P. (Incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
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- 10.27 Broiler Growing Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler.+
- 21.1 Subsidiaries of Registrant.+
- 23.1 Consent of Ernst & Young LLP.\*
- 23.2 Consent of Baker & McKenzie (included in the opinion filed as Exhibit 5.1 to this Registration Statement).\*
- 24.1 Power of Attorney (included on the signature page of this Registration Statement).+

- - - - -  
\* Filed herewith

+ Previously filed

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.

Financial Statement Schedules

Schedule II--Valuation and Qualifying Accounts

All other schedules are omitted because they are inapplicable or the requested information is in the financial statements or the notes thereto.

## ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that (i) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective, and (ii) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pittsburg, State of Texas, on July 17, 1997.

## PILGRIM'S PRIDE CORPORATION

/s/ Clifford E. Butler

By: \_\_\_\_\_  
 Clifford E. Butler  
 Vice Chairman of the Board of  
 Directors  
 and Executive President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
* _____ Lonnie A. Pilgrim	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	July 17, 1997
/s/ Clifford E. Butler _____ Clifford E. Butler	Vice Chairman of the Board of Directors and Executive President	July 17, 1997
* _____ Lindy M. Pilgrim	President, Chief Operating Officer and Director	July 17, 1997
* _____ Richard A. Cogdill	Executive Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	July 17, 1997
* _____ Robert L. Hendrix	Executive Vice President, Operations and Director	July 17, 1997
* _____ James J. Miner	Senior Vice President, Technical Services and Director	July 17, 1997
* _____ Lonnie Ken Pilgrim	Vice President, Director of Transportation and Director	July 17, 1997
* _____ Charles L. Black	Director	July 17, 1997
* _____ Robert E. Hilgenfeld	Director	July 17, 1997
* _____ Vance C. Miller	Director	July 17, 1997

SIGNATURE

-----

TITLE

-----

DATE

-----

\*

Director

July 17, 1997

James G. Vetter, Jr.

\*

Director

July 17, 1997

Donald L. Wass

/s/ Clifford E. Butler

By:

Clifford E. Butler  
(Attorney-in-fact)

II-7



PILGRIM'S PRIDE CORPORATION AND SUBSIDIARIES  
SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

ADDITIONS

DESCRIPTION -----	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHANGES TO OTHER ACCOUNTS-- DESCRIBE	DEDUCTIONS -- DESCRIBE	BALANCE AT END OF PERIOD -----
Year ended September 28, 1996:					
Reserves and allowances deducted from asset accounts; Allowance for doubtful.....	\$4,280,000	\$1,003,000	\$--	\$1,298,000 (1)	\$3,985,000
Year ended September 30, 1995:					
Reserves and allowances deducted from asset accounts; Allowance for doubtful.....	\$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.....	\$3,238,000	\$2,663,000	\$--	\$ (2,000)(2)	\$5,906,000

(1) The decrease in the 1996 and 1995 reserve account is primarily due to the devaluation of the peso.

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

# EXHIBIT INDEX

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EXHIBIT  
NUMBER

DESCRIPTION

- 10.9 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. (incorporated by reference from Exhibit 10.36 of the Company's annual report on Form 10-K for the fiscal year ended September 28, 1996).
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- 10.20 Aircraft Lease Extension Agreement between B.P. Leasing Co., (L. A. Pilgrim, Individually) and Pilgrim's Pride Corporation, (formerly Pilgrim Industries, Inc.) effective November 15, 1992 (incorporated by reference from Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).

EXHIBIT  
NUMBER

DESCRIPTION

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- 10.21 Broiler Grower Contract dated May 6, 1997 between Pilgrim's Pride Corporation and Lonnie "Bo" Pilgrim (Farm 30) (incorporated by reference from Exhibit 10.49 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
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  - 10.23 Agreement dated October 15, 1996 between Pilgrim's Pride Corporation and Pilgrim Poultry, G.P. (Incorporated by reference from Exhibit 10.51 of the Company's Quarterly Report on Form 10-Q for the three months ended March 29, 1997).
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  - 10.25 Broiler Grower Contract dated January 9, 1997 by and between Pilgrim's Pride Corporation and O.B. Goolsby, Jr.+
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  - 10.27 Broiler Growing Agreement dated January 29, 1997 by and between Pilgrim's Pride Corporation and Clifford E. Butler.+
  - 21.1 Subsidiaries of Registrant.+
  - 23.1 Consent of Ernst & Young LLP.\*
  - 23.2 Consent of Baker & McKenzie (included in the opinion filed as Exhibit 5.1 to this Registration Statement).\*
  - 24.1 Power of Attorney (included on the signature page of this Registration Statement).+

- -----  
\* Filed herewith

+ Previously filed

6,261,382 Shares

PILGRIM'S PRIDE CORPORATION

Common Stock

UNDERWRITING AGREEMENT/1/  
-----

July \_\_, 1997

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
A.G. EDWARDS & SONS, INC.  
As representatives of the  
several Underwriters  
named in Schedule I hereto  
c/o Donaldson, Lufkin & Jenrette  
Securities Corporation  
277 Park Avenue  
New York, New York 10172

Dear Sirs:

Certain stockholders named in Schedule II hereto (the "Selling  
-----  
Stockholders") severally propose to sell to the several Underwriters named in  
-----  
Schedule I hereto (the "Underwriters"), an aggregate of 6,261,382 shares (the  
-----  
"Firm Shares") of common stock, par value \$.01 per share, of Pilgrim's Pride  
-----  
Corporation, a Delaware corporation (the "Company"), each Selling Stockholder  
-----  
selling the amount set forth opposite such Selling Stockholder's name in  
Schedule II hereto. The Company also proposes to issue and sell to the several  
Underwriters not more than 939,207 additional shares of its common stock, \$.01  
par value per share

-----

/1/ This form assumes that the Underwriting Agreement is executed and delivered  
after the Registration Statement has been declared effective and that at  
the time of effectiveness, the Registration Statement omitted pricing and  
other related information as permitted by Rule 430A under the Act.

(the "Additional Shares") if requested by the Underwriters as provided in

-----  
Section 2 hereof. The Firm Shares and the Additional Shares are hereinafter referred to collectively as the "SHARES". The shares of common stock of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the "COMMON STOCK". The Company and the Selling Stockholders are hereinafter sometimes collectively referred to as the "SELLERS".

Section 1. Registration Statement and Prospectus. The Company has  
-----  
prepared and filed with the Securities and Exchange Commission (the  
"Commission") in accordance with the provisions of the Securities Act of 1933,  
-----  
as amended, and the rules and regulations of the Commission thereunder  
(collectively, the "Act"), a registration statement on Form S-1, including a  
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prospectus, relating to the Shares. The registration statement, as amended at the time it became effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A under the Act, is hereinafter referred to as the "Registration Statement"; and the prospectus in the form first used to confirm sales of Shares is hereinafter referred to as the "Prospectus". If the Company has filed or is required pursuant to the terms hereof to file a registration statement pursuant to Rule 462(b) under the Act registering additional shares of Common Stock (a "Rule 462(b) Registration Statement"), then, unless otherwise specified, any  
-----  
reference herein to the term "Registration Statement" shall be deemed to include such Rule 462(b) Registration Statement.

Section 2. Agreements to Sell and Purchase and Lock-Up Agreements. On the  
-----  
basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, (i) each Selling Stockholder agrees, severally and not jointly, to sell the number of Firm Shares set forth opposite such Selling Stockholder's name in Schedule II hereto and (ii) each Underwriter agrees, severally and not jointly, to purchase from each Selling Stockholder at a price per Share of \$\_\_\_\_\_ (the "Purchase Price") the number of Firm Shares  
-----  
(subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the total number of Firm Shares to be sold by such Selling Stockholder as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto bears to the total number of Firm Shares.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to issue and sell the Additional

Shares and the Underwriters shall have the right to purchase, severally and not jointly, up to 939,207 Additional Shares from the Company at the Purchase Price. Additional Shares may be purchased solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. The Underwriters may exercise their right to purchase Additional Shares in whole or in part from time to time by giving written notice thereof to the Company within 30 days after the date of this Agreement. You shall give any such notice on behalf of the Underwriters and such notice shall specify the aggregate number of Additional Shares to be purchased pursuant to such exercise and the date for payment and delivery thereof, which date shall be a business day (i) no earlier than two business days after such notice has been given (and, in any event, no earlier than the Closing Date (as hereinafter defined)) and (ii) no later than ten business days after such notice has been given. If any Additional Shares are to be purchased, each Underwriter, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments to eliminate fractional shares as you may determine) which bears the same proportion to the total number of Additional Shares to be purchased from the Company as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I bears to the total number of Firm Shares.

Each Seller hereby agrees not to (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any Common Stock (regardless of whether any of the transactions described in clause (i) or (ii) is to be settled by the delivery of Common Stock, or such other securities, in cash or otherwise), except to the Underwriters pursuant to this Agreement, for a period of 90 days after the date of the Prospectus without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation. The Company also agrees not to file any registration statement with respect to any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock for a period of 90 days after the date of the Prospectus without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation. In addition, each Selling Stockholder agrees that, for a period of 90 days after the date of the Prospectus without the prior written consent of Donaldson, Lufkin & Jenrette

Securities Corporation, it will not make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock. The Company shall, prior to or concurrently with the execution of this Agreement, deliver an agreement executed by (i) each Selling Stockholder and (ii) each of the directors and executive officers of the Company who is not a Selling Stockholder listed on Annex 1 hereto to the effect that such person will

not, during the period commencing on the date such person signs such agreement and ending 90 days after the date of the Prospectus, without the prior written consent of Donaldson, Lufkin & Jenrette Corporation, (A) engage in any of the transactions described in the first sentence of this paragraph or (B) make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock.

Section 3. Terms of Public Offering. The Sellers are advised by you that

the Underwriters propose (i) to make a public offering of their respective portions of the Shares as soon after the execution and delivery of this Agreement as in your judgment is advisable and (ii) initially to offer the Shares upon the terms set forth in the Prospectus.

Section 4. Delivery and Payment. Delivery to the Underwriters of and

payment for the Firm Shares shall be made at 9:00 A.M., New York City time, on \_\_\_\_\_, 1997 (the "Closing Date") at such place as you shall designate.

The Closing Date and the location of delivery of and payment for the Firm Shares may be varied by agreement between you and the Company.

Delivery to the Underwriters of and payment for any Additional Shares to be purchased by the Underwriters shall be made at such place as you shall designate at 9:00 A.M., New York City time, on the date specified in the applicable exercise notice given by you pursuant to Section 2 (an "Option Closing Date").

Any such Option Closing Date and the location of delivery of and payment for such Additional Shares may be varied by agreement between you and the Company.

Certificates for the Shares (other than the DTC Shares (as defined below)) shall be registered in such names and issued in such denominations as you shall request in writing not later than two full business days prior to the Closing Date or an Option Closing Date, as the case may be. Such certificates shall be made available to you for inspection not later than 9:30 A.M.,



New York City time, on the business day prior to the Closing Date or the applicable Option Closing Date, as the case may be. Certificates in definitive form evidencing the Shares (other than the DTC Shares) shall be delivered to you on the Closing Date or the applicable Option Closing Date, as the case may be, with any transfer taxes thereon duly paid by the respective Sellers, for the respective accounts of the several Underwriters, against payment to the Sellers of the Purchase Price therefor by wire transfer of Federal or other funds immediately available in New York City. The DTC Shares shall be transferred to you or your designee(s) on the books of The Depositary Trust Company on the Closing Date, with any transfer taxes thereon duly paid by ADM, for the respective accounts of the several Underwriters, against payment to ADM of the Purchase Price therefor by wire transfer of Federal or other funds immediately available in New York City. As used herein, "DTC Shares" shall mean the 514,900

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Shares beneficially owned by ADM (as defined in Section 5(i)) and held by The Depositary Trust Company.

Section 5. Agreements of the Company. The Company agrees with you:  
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(a) To advise you promptly and, if requested by you, to confirm such advice in writing, (i) of any request by the Commission for amendments to the Registration Statement or amendments or supplements to the Prospectus or for additional information, (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction, or the initiation of any proceeding for such purposes, (iii) when any amendment to the Registration Statement becomes effective, (iv) if the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, when the Rule 462(b) Registration Statement has become effective and (v) of the happening of any event during the period referred to in Section 5(d) below which makes any statement of a material fact made in the Registration Statement or the Prospectus untrue or which requires any additions to or changes in the Registration Statement or the Prospectus in order to make the statements therein not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will use its best efforts to obtain the withdrawal or lifting of such order at the earliest possible time.

(b) To furnish to you three signed copies of the Registration Statement as first filed with the Commission and of each amendment to it, including all exhibits, and to furnish to you and each Underwriter designated by you such number of conformed copies of the Registration Statement as so filed and of each amendment to it, without exhibits, as you may reasonably request.

(c) To prepare the Prospectus in a form reasonably acceptable to you and to file the Prospectus in such form with the Commission within the applicable period specified in Rule 424(b) under the Act; not to file any further amendment to the Registration Statement and not to make any amendment or supplement to the Prospectus of which you shall not previously have been advised or to which you shall reasonably object after being so advised; and to prepare and file with the Commission, promptly upon your reasonable request, any amendment to the Registration Statement or amendment or supplement to the Prospectus which may be necessary or advisable in connection with the distribution of the Shares by you, and to use its best efforts to cause any such amendment to the Registration Statement to become promptly effective.

(d) Prior to 10:00 A.M., New York City time, on the second business day after the date of this Agreement and from time to time thereafter for such period as in the opinion of counsel for the Underwriters a prospectus is required by law to be delivered in connection with sales by an Underwriter or a dealer, to furnish in New York City to each Underwriter and any dealer as many copies of the Prospectus (and of any amendment or supplement to the Prospectus) as such Underwriter or dealer may reasonably request.

(e) If during the period specified in Section 5(d), any event shall occur or condition shall exist as a result of which, in the opinion of counsel for the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare and file with the Commission an appropriate amendment or supplement to the Prospectus so that the statements in the Prospectus, as so amended or supplemented, will not in the light of the circumstances when it is so

delivered, be misleading, or so that the Prospectus will comply with applicable law, and to furnish to each Underwriter and to any dealer as many copies thereof as such Underwriter or dealer may reasonably request.

(f) Prior to any public offering of the Shares, to cooperate with you and counsel for the Underwriters in connection with the registration or qualification of the Shares for offer and sale by the several Underwriters and by dealers under the state securities or Blue Sky laws of such jurisdictions as you may request, to continue such qualification in effect so long as required for distribution of the Shares and to file such consents to service of process or other documents as may be necessary in order to effect such registration or qualification; provided, however, that the Company shall not be required in connection therewith to register or qualify as a foreign corporation in any jurisdiction in which it is not now so qualified or to take any action that would subject it to service of process or taxation other than as to matters and transactions relating to the Prospectus, the Registration Statement, any preliminary prospectus or the offering or sale of the Shares, in any jurisdiction in which it is not now so subject.

(g) To mail and make generally available to its stockholders as soon as practicable an earnings statement covering the twelve-month period ending September 27, 1998 that shall satisfy the provisions of Section 11(a) of the Act, and to advise you in writing when such statement has been so made available.

(h) During the period of three years after the date of this Agreement, to furnish to you as soon as available copies of all reports or other communications furnished to the record holders of Common Stock or furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed and such other publicly available information concerning the Company and its subsidiaries as you may reasonably request.

(i) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of the Sellers' obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel and the Company's accountants in connection with the registration and delivery

of the Shares under the Act and all other fees or expenses in connection with the preparation, printing, filing and distribution of the Registration Statement (including financial statements and exhibits), any preliminary prospectus, the Prospectus and all amendments and supplements to any of the foregoing prior to or during the period specified in Section 5(d), including the mailing and delivering of copies thereof to the Underwriters and dealers in the quantities specified herein, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) all costs of printing or producing this Agreement and any other agreements or documents prepared and delivered by you or your counsel with the consent of the Company in connection with the offering, purchase, sale or delivery of the Shares, (iv) all expenses in connection with the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states and all costs of printing or producing any Preliminary and Supplemental Blue Sky Memoranda in connection therewith (including the filing fees and fees and disbursements of counsel for the Underwriters in connection with such registration or qualification and memoranda relating thereto), (v) the filing fees and disbursements of counsel for the Underwriters in connection with the review and clearance of the offering of the Shares by the National Association of Securities Dealers, Inc., (vi) all costs and expenses incident to the listing of the Shares on the New York Stock Exchange, (vii) the cost of printing certificates representing the Shares, (viii) the costs and charges of any transfer agent, registrar and/or depository, and (ix) all other costs and expenses incident to the performance of the obligations of the Company and the Selling Stockholders hereunder for which provision is not otherwise made in this Section. The provisions of this Section shall not supersede or otherwise affect any agreement that the Company and the Selling Stockholders may otherwise have for allocation of such expenses among themselves, including, without limitation, that certain agreement, dated as of July \_\_, 1997, among the Company and Archer-Daniels-Midland Company, a Delaware corporation ("ADM"), Patrick Wayne Pilgrim and Greta Pilgrim

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Owens.

(j) To use its best efforts to list, subject to notice of issuance, the Additional Shares, if any, on the New York Stock Exchange and to maintain the listing of the Shares on the New York Stock Exchange for a period of three years after the date of this Agreement.

(k) To use its best efforts to do and perform all things required or necessary to be done and performed under this Agreement by the Company prior to the Closing Date or any Option Closing Date, as the case may be, and to satisfy all conditions precedent to the delivery of the Shares.

(l) If the Registration Statement at the time of the effectiveness of this Agreement does not cover all of the Shares, to file a Rule 462(b) Registration Statement with the Commission registering the Shares not so covered in compliance with Rule 462(b) by 10:00 P.M., New York City time, on the date of this Agreement and to pay to the Commission the filing fee for such Rule 462(b) Registration Statement at the time of the filing thereof or to give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

6. Representations and Warranties of the Company. The Company represents

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and warrants to each Underwriter that:

(a) The Registration Statement has become effective (other than any Rule 462(b) Registration Statement to be filed by the Company after the effectiveness of this Agreement); any Rule 462(b) Registration Statement filed after the effectiveness of this Agreement will become effective no later than 10:00 P.M., New York City time, on the date of this Agreement; and no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) The Registration Statement (other than any Rule 462(b) Registration Statement to be filed by the Company after the effectiveness of this Agreement), when it became effective, did not contain and, as amended, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement (other than any Rule 462(b) Registration Statement to be filed by the Company after the effectiveness of this Agreement) and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Act, (iii) if the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, such Rule 462(b) Registration Statement and any amendments thereto, when they become effective (A) will not contain any untrue statement

of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (B) will comply in all material respects with the Act and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

(c) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the Act, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in any preliminary prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

(d) The Company has no subsidiaries other than those listed on Exhibit 22.1 to the Registration Statement. Each of the Company and its subsidiaries is a corporation, limited partnership or business trust that has been duly formed, is validly existing and in good standing under the laws of its jurisdiction of organization and has the power and authority to carry on its business as described in the Prospectus and to own, lease and operate its properties, and each is duly qualified and is in good standing as a foreign corporation, limited partnership or business trust authorized to do business in each jurisdiction in which the nature of its business or its ownership or leasing of property requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole.

(e) There are no outstanding subscriptions, rights, warrants, options, calls, convertible securities, commitments of sale or liens granted or issued by the Company or any of its subsidiaries relating to or entitling any person to purchase or otherwise to acquire any ownership interest in the Company or any of its subsidiaries, except as otherwise disclosed in the Registration Statement.

(f) All the outstanding shares of capital stock of the Company (including the Shares to be sold by the Selling Stockholders) have been duly authorized and validly issued and are fully paid, non-assessable and not subject to any preemptive or similar rights; and the Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered to the Underwriters against payment therefor as provided by this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(g) All of the outstanding shares of capital stock, partnership interests or other ownership interests, as applicable, of each of the Company's subsidiaries are owned by the Company, directly or indirectly through one or more subsidiaries, free and clear of any security interest, claim, lien, encumbrance or adverse interest of any nature, except as set forth on Annex II hereto. All of the outstanding shares of capital stock of each of the Company's corporate subsidiaries have been duly authorized and validly issued and are fully paid and non-assessable.

(h) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus.

(i) Neither the Company nor any of its subsidiaries is in violation of its respective charter or by-laws or in default in the performance of any obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument that is material to the Company and its subsidiaries, taken as a whole, to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or their respective property is bound.

(j) The execution, delivery and performance of this Agreement by the Company, compliance by the Company with all the provisions hereof and the consummation of the

transactions contemplated hereby (i) will not require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states), (ii) will not conflict with or constitute a breach of any of the terms or provisions of, or a default under, (A) the charter or by-laws of the Company or any of its subsidiaries or (B) any indenture, loan agreement, mortgage, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or their respective property is bound except for breaches or defaults that would not be material to the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, and (iii) (assuming compliance with all applicable state securities or Blue Sky laws, rules and regulations) will not violate or conflict with any applicable law or any rule, regulation, judgment, order or decree of any court or any governmental body or agency having jurisdiction over the Company, any of its subsidiaries or their respective property.

(k) There are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is or could be a party or to which any of their respective property is or could be subject that are required to be described in the Registration Statement or the Prospectus and are not so described as required; nor are there any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required.

(l) Neither the Company nor any of its subsidiaries has violated any foreign, federal, state or local law or regulation relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws") or any provisions of the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations promulgated thereunder, except for such violations which, singly or in the aggregate, would not have a material adverse effect on the business, prospects, financial condition or results of operation of the Company and its subsidiaries, taken as a whole.



(m) Each of the Company and its subsidiaries has such permits, licenses, consents, exemptions, franchises, authorizations and other approvals (each, an "Authorization") of, and has made all filings with and

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notices to, all governmental or regulatory authorities and self-regulatory organizations and all courts and other tribunals, including, without limitation, under any applicable Environmental Laws, as are necessary to own, lease, license and operate its respective properties and to conduct its business, except where the failure to have any such Authorization or to make any such filing or notice would not, singly or in the aggregate, have a material adverse effect on the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole. Each such Authorization is valid and in full force and effect and each of the Company and its subsidiaries is in compliance with all the terms and conditions thereof and with the rules and regulations of the authorities and governing bodies having jurisdiction with respect thereto; and no event has occurred (including, without limitation, the receipt of any notice from any authority or governing body) which allows or, after notice or lapse of time or both, would allow, revocation, suspension or termination of any such Authorization or results or, after notice or lapse of time or both, would result in any other impairment of the rights of the holder of any such Authorization; and such Authorizations contain no restrictions that are burdensome to the Company or any of its subsidiaries; except where such failure to be valid and in full force and effect or to be in compliance, the occurrence of any such event or the presence of any such restriction would not, singly or in the aggregate, have a material adverse effect on the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole.

(n) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any Authorization, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a material adverse effect on the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole.

(o) This Agreement has been duly authorized, executed and delivered by the Company.

(p) Ernst & Young LLP are independent public accountants with respect to the Company and its subsidiaries as required by the Act.

(q) The consolidated financial statements, together with related schedules and notes forming part of the Registration Statement and the Prospectus (and any amendment or supplement thereto), present fairly in all material respects the consolidated financial position, results of operations and changes in financial position of the Company and its subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) are, in all material respects, accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company.

(r) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(s) Except for that certain Stock Purchase Agreement, dated as of May 12, 1992, between the Company and ADM, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement.

(t) Since the respective dates as of which information is given in the Prospectus other than as set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement), (i) there has not occurred any material adverse change or any development involving a prospective material adverse change in the condition, financial or otherwise, or the earnings,

business, management or operations of the Company and its subsidiaries, taken as a whole, (ii) there has not been any material adverse change or any development involving a prospective material adverse change in the capital stock or in the long-term debt of the Company or any of its subsidiaries and (iii) neither the Company nor any of its subsidiaries has incurred any material liability or obligation, direct or contingent.

(u) Except as otherwise set forth in the Prospectus or such as are not material to the business, prospects, financial condition or results of operations of the Company and its subsidiaries considered as a whole, each of the Company and its subsidiaries has good and marketable title, free and clear of all liens, claims, encumbrances and restrictions except liens for taxes not yet due and payable, to all property and assets described in the Registration Statement as being owned by it. All leases to which the Company or any of its subsidiaries is a party are valid and binding and no default has occurred or is continuing thereunder, which might result in any material adverse change in the business, prospects, financial condition or results of operations of the Company and its subsidiaries taken as a whole, and the Company and each of its subsidiaries enjoy peaceful and undisturbed possession under all such leases to which the Company or any of its subsidiaries is a party as lessee with such exceptions as do not materially interfere with the use made by the Company or such subsidiary.

(v) The Company maintains reasonably adequate insurance.

#### Section 7. Representations and Warranties of the Selling Stockholders.

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Each Selling Stockholder represents and warrants to each Underwriter that:

(a) Such Selling Stockholder is the lawful owner of the Shares to be sold by such Selling Stockholder pursuant to this Agreement and has, and on the Closing Date will have, good and clear title to such Shares, free of all restrictions on transfer, liens, encumbrances, security interests, equities and claims whatsoever.

(b) Such Selling Stockholder has, and on the Closing Date will have, full legal right, power and authority, and all authorization and approval required by law, to enter into this Agreement, the Custody Agreement signed by such

Selling Stockholder and Harris Trust and Savings Bank, as Custodian, relating to the deposit of the Shares to be sold by such Selling Stockholder (the "Custody Agreement") and the Power of Attorney of such

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Selling Stockholder (in the case of Patrick Wayne Pilgrim and Greta Pilgrim Owens) appointing Lonnie A. Pilgrim and Clifford E. Butler as such Selling Stockholder's attorneys-in-fact (the "Attorneys") to the extent set forth

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therein, relating to the transactions contemplated hereby and by the Registration Statement and the Custody Agreement (the "Power of Attorney")

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and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder in the manner provided herein and therein.

(c) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(d) The Custody Agreement of such Selling Stockholder has been duly authorized, executed and delivered by such Selling Stockholder and is a valid and binding agreement of such Selling Stockholder, enforceable in accordance with its terms.

(e) The Power of Attorney of such Selling Stockholder (in the case of Patrick Wayne Pilgrim and Greta Pilgrim Owens) has been duly authorized, executed and delivered by such Selling Stockholder and is a valid and binding instrument of such Selling Stockholder, enforceable in accordance with its terms, and, pursuant to such Power of Attorney, such Selling Stockholder has, among other things, authorized the Attorneys, or any one of them, to execute and deliver on such Selling Stockholder's behalf this Agreement and any other document that they, or any one of them, may deem necessary or desirable in connection with transactions contemplated hereby and thereby and to deliver the Shares to be sold by such Selling Stockholder pursuant to this Agreement.

(f) Upon delivery of and payment for the Shares to be sold by such Selling Stockholder pursuant to this Agreement, good and clear title to such Shares will pass to the Underwriters, free of all restrictions on transfer, liens, encumbrances, security interests, equities and claims whatsoever.

(g) The execution, delivery and performance of this Agreement and the Custody Agreement and, in the case of Patrick Wayne Pilgrim and Greta Pilgrim Owens, the Power of

Attorney of such Selling Stockholder by or on behalf of such Selling Stockholder, compliance by such Selling Stockholder with all the provisions hereof and thereof and the consummation of the transactions contemplated hereby and thereby will not require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states) and will not conflict with or constitute a breach of any of the terms or provisions of, or a default under, the organizational documents of such Selling Stockholder, if such Selling Stockholder is not an individual, or any indenture, loan agreement, mortgage, lease or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder or any property of such Selling Stockholder is bound, or violate or conflict with any applicable law or any rule, regulation, judgment, order or decree of any court or any governmental body or agency having jurisdiction over such Selling Stockholder or any property of such Selling Stockholder.

(h) The information in the Registration Statement under the caption "Principal and Selling Stockholders" which specifically relates to such Selling Stockholder does not, and will not on the Closing Date, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) At any time during the period described in Section 5(d), if there is any change in the information referred to in Section 7(h), such Selling Stockholder will immediately notify you of such change.

Section 8. Indemnification.

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(a) The Company agrees to indemnify and hold harmless each Underwriter, its directors, its officers and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), from and against any and all losses, claims, damages,

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liabilities and judgments (including, without limitation, any legal or other expenses incurred in connection with investigating or defending any matter, including any action, that could give rise to any such losses, claims, damages,

liabilities or judgments) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or judgments are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished in writing to the Company by such Underwriter through you expressly for use therein; provided that the foregoing indemnity with respect to any

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preliminary prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages, liabilities, actions or expenses purchased Shares, or any controlling person of such Underwriter, if a copy of the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) had not been sent or given by or on behalf of such Underwriter to such person at or prior to the written confirmation of the sale of Shares to such person by such Underwriter and the untrue statement or omission (or alleged untrue statement or omission) of a material fact in such preliminary prospectus was corrected in the Prospectus (as amended or supplemented).

(b) Each Selling Stockholder agrees, severally and not jointly, to indemnify and hold harmless each Underwriter, its directors, its officers and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such persons but only with reference to information included in, or omissions from, the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or any preliminary prospectus made in reliance upon and in conformity with written information furnished to the Company or any Underwriter by such Selling Stockholder, directly or through such Selling Stockholder's representatives. Notwithstanding the foregoing, the aggregate liability of any Selling Stockholder pursuant to this Section 8(b) shall be limited to an amount equal to the total proceeds (before deducting expenses) received by such Selling Stockholder from the Underwriters for the sale of the Shares sold by such Selling Stockholder hereunder.

(c) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, each Selling Stockholder and each person, if any, who controls such Selling Stockholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Underwriter but only with reference to information relating to such Underwriter furnished in writing to the Company by such Underwriter through you expressly for use in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or any preliminary prospectus.

(d) In case any action shall be commenced involving any person in respect of which indemnity may be sought pursuant to Section 8(a), 8(b) or 8(c) (the "indemnified party"), the indemnified party shall promptly notify

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the person against whom such indemnity may be sought (the "indemnifying  
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party") in writing and the indemnifying party shall assume the defense of  
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such action, including the employment of counsel reasonably satisfactory to the indemnified party and the payment of all fees and expenses of such counsel, as incurred (except that in the case of any action in respect of which indemnity may be sought pursuant to Section 8(c) and one or more of Sections 8(a) and 8(b), the Underwriter shall not be required to assume the defense of such action pursuant to this Section 8(d), but may employ separate counsel and participate in the defense thereof, but the fees and expenses of such counsel, except as provided below, shall be at the expense of such Underwriter). Any indemnified party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the indemnified party unless (i) the employment of such counsel shall have been specifically authorized in writing by the indemnifying party, (ii) the indemnifying party shall have failed to assume the defense of such action or employ counsel reasonably satisfactory to the indemnified party or (iii) the named parties to any such action (including any impleaded parties) include both the indemnified party and the indemnifying party, and the indemnified party and the indemnifying party shall have been advised by such counsel that there may be one or more legal defenses available to the indemnified party which are different from or additional to those available to the

indemnifying party (in which case the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party). In any such case, the indemnifying party shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for (i) the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all Underwriters, their officers and directors and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act, (ii) the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for the Company, its directors, its officers who sign the Registration Statement and all persons, if any, who control the Company within the meaning of either such Section and (iii) the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all Selling Stockholders and all persons, if any, who control any Selling Stockholder within the meaning of either such Section, and all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Underwriters, their officers and directors and such control persons of any Underwriters, such firm shall be designated in writing by Donaldson, Lufkin & Jenrette Securities Corporation. In the case of any such separate firm for the Company and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. In the case of any such separate firm for the Selling Stockholders and such control persons of any Selling Stockholders, such firm shall be designated in writing by the Attorneys. The indemnifying party shall indemnify and hold harmless the indemnified party from and against any and all losses, claims, damages, liabilities and judgments by reason of any settlement of any action (i) effected with its written consent or (ii) effected without its written consent if the settlement is entered into more than twenty business days after the indemnifying party shall have received a request from the indemnified party for reimbursement for the fees and expenses of counsel (in any case where such fees and expenses are at the expense of the indemnifying party) and, prior to the date of such settlement, the indemnifying party shall have failed to comply with such reimbursement request. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement or compromise of, or consent to the entry of judgment with



respect to, any pending or threatened action in respect of which the indemnified party is or could have been a party and indemnity or contribution may be or could have been sought hereunder by the indemnified party, unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability on claims that are or could have been the subject matter of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the indemnified party.

(e) To the extent the indemnification provided for in this Section 8 is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages, liabilities or judgments referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and judgments (i) in such proportion as is appropriate to reflect the relative benefits received by the Sellers on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause 8(e)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 8(e)(i) above but also the relative fault of the Sellers on the one hand and the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Sellers, and the total underwriting discounts and commissions received by the Underwriters, bear to the total price to the public of the Shares, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholders on the one hand or the Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Sellers and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8(e) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such indemnified party in connection with investigating or defending any matter, including any action, that could have given rise to such losses, claims, damages, liabilities or judgments. Notwithstanding the provisions of this Section 8, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 8(e) are several in proportion to the respective number of Shares purchased by each of the Underwriters hereunder and not joint.

(f) The remedies provided for in this Section 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(g) Each Selling Stockholder (other than ADM) hereby designates Pilgrim's Pride Corporation, 110 South Texas Street, Pittsburg, Texas 75686, as its authorized agent, upon which process may be served in any action which may be instituted by any Underwriter, any director or officer of any Underwriter or any person controlling any Underwriter asserting a claim for indemnification or contribution under or pursuant to this Section 8. A copy of any such process shall be sent or given to such Selling Stockholder at the address for notices specified in Section 12 hereof. ADM hereby agrees that any such process may be served on it at the address for notices to it specified in Section 12

hereof. Each Selling Stockholder agrees that it will accept the jurisdiction of any state or federal court in the State of New York in any such action, and waives, to the fullest extent permitted by applicable law, any defense based upon lack of personal jurisdiction or venue.

Section 9. Conditions of Underwriters' Obligations. The several

obligations of the Underwriters to purchase the Firm Shares under this Agreement are subject to the satisfaction of each of the following conditions:

(a) All the representations and warranties of the Company contained in this Agreement shall be true and correct on the Closing Date with the same force and effect as if made on and as of the Closing Date.

(b) If the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, such Rule 462(b) Registration Statement shall have become effective by 10:00 P.M., New York City time, on the date of this Agreement; and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been commenced or shall be pending before or, to the knowledge of the Company, contemplated by the Commission.

(c) On or after the date hereof there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating of the Company or any of the Company's securities or in the rating outlook of the Company (including, without limitation, the placing of any of the foregoing ratings on creditwatch with negative or developing implications or under review with an uncertain direction) by any "nationally recognized statistical rating organization" as such term is defined for purposes of Rule 436(g)(2) under the Act.

(d) You shall have received on the Closing Date a certificate dated the Closing Date, signed by Clifford E. Butler and Richard A. Cogdill, in their capacities as the Executive President and Chief Financial Officer of the Company, confirming the matters set forth in Sections 9(a), 9(b), 9(e), and 9(m) (with respect to the Company) and, to their knowledge, 9(c).

(e) Since the respective dates as of which information is given in the Prospectus other than as set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement), (i) there shall not have occurred any material adverse change or any development involving a prospective material adverse change in the condition, financial or otherwise, or the earnings, business, management or operations of the Company and its subsidiaries, taken as a whole, (ii) there shall not have been any change or any development involving a prospective material adverse change in the capital stock or in the long-term debt of the Company or any of its subsidiaries and (iii) neither the Company nor any of its subsidiaries shall have incurred any liability or obligation, direct or contingent, which is material to the Company and its subsidiaries taken as a whole, other than those incurred in the ordinary course of business consistent in both type and amount with past practice, the effect of which, in any such case described in clause 9(e)(i), 9(e)(ii) or 9(e)(iii), in your judgment, is material and adverse and, in your judgment, makes it impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

(f) All the representations and warranties of the Selling Stockholders contained in this Agreement shall be true and correct on the Closing Date with the same force and effect as if made on and as of the Closing Date and you shall have received a certificate to such effect, dated the Closing Date, from each Selling Stockholder.

(g) You shall have received on the Closing Date an opinion (satisfactory to you and counsel for the Underwriters), dated the Closing Date, of Baker & McKenzie, counsel for the Company and the Selling Stockholders (other than ADM), to the effect that:

(i) each of the Company and its subsidiaries is a corporation, limited partnership or business trust validly existing and, in the case of any such corporation or business trust, in good standing under the laws of its jurisdiction of incorporation or formation and has the power and authority to carry on its business as described in the Prospectus and to own, lease and operate its properties;

(ii) the Company is duly qualified as a foreign corporation in the states of Arizona, Arkansas, Oklahoma and Texas;

(iii) all the Firm Shares have been duly authorized and validly issued and are fully paid, non-assessable and were not issued in violation of any statutory preemptive rights or, to such counsel's knowledge, other rights to subscribe for or purchase any securities;

(iv) the Shares to be issued and sold by the Company hereunder have been duly authorized and, when issued and delivered to the Underwriters against payment therefor as provided by this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any statutory preemptive rights or, to such counsel's knowledge, other rights to subscribe for or purchase any securities;

(v) to such counsel's knowledge, all of the outstanding shares of capital stock, partnership interests or other ownership interests, as applicable, of each of the Company's subsidiaries are owned by the Company, directly or indirectly through one or more subsidiaries, free and clear of any security interest, claim, lien, encumbrance or adverse interest of any nature, except as set forth on Annex II hereto; and all of the outstanding shares of capital stock of each of the Company's corporate subsidiaries have been duly authorized and validly issued and are fully paid and non-assessable;

(vi) this Agreement has been duly authorized, executed and delivered by the Company and by or on behalf of each Selling Stockholder (other than ADM);

(vii) the authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus;

(viii) based solely on telephonic confirmation from the Commission, the Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending its effectiveness has been issued and no proceedings for that purpose are pending before or contemplated by the Commission;

(ix) the statements under the caption "Description of Capital Stock" in the Prospectus and Items 14 and 15 of Part II of the Registration Statement, insofar as

such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings;

(x) the execution, delivery and performance of this Agreement by the Company, compliance by the Company with all the provisions hereof and the consummation of the transactions contemplated hereby (A) will not require any consent, approval, authorization or other order of, or qualification with, any federal, Delaware corporate or Texas governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states), (B) will not violate or constitute a breach of any of the terms or provisions of, or a default under, (1) the charter or by-laws of the Company or (2) any indenture, loan agreement, mortgage, lease or other agreement or instrument that is material to the Company and its subsidiaries, taken as a whole, to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or their respective property is bound and of which such counsel is aware, except for violations, breaches or defaults which could not reasonably be expected to have a material adverse effect on the business, properties, or financial condition of the Company and its subsidiaries taken as a whole, and (C) will not violate any applicable federal, Delaware corporate or Texas law, rule or regulation (other than federal or state securities or blue sky laws, rules or regulations, as to which such counsel need express no opinion), or, to such counsel's knowledge, any judgment, order or decree of any court or any governmental body or agency having jurisdiction over the Company, any of its subsidiaries or their respective property;

(xi) such counsel does not know of any legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is or could be a party or to which any of their respective property is or could be subject that are required to be described in the Registration Statement or the Prospectus and are not so described as required, or of any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required;

(xii) the Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended;

(xiii) to such counsel's knowledge, except for that certain Stock Purchase Agreement, dated as of May 12, 1992, between the Company and ADM, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement;

(xiv) the Registration Statement and the Prospectus and any supplement or amendment thereto (except for the financial statements and other financial data included therein as to which no opinion need be expressed) comply as to form in all material respects with the Act;

(xv) each Selling Stockholder (other than ADM) is the record owner of the Shares to be sold by such Selling Stockholder pursuant to this Agreement;

(xvi) the Custody Agreement of each Selling Stockholder (other than ADM) has been duly executed and delivered by such Selling Stockholder and is a valid and binding agreement of such Selling Stockholder, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity);

(xvii) the Power of Attorney of each Selling Stockholder (other than ADM) has been duly executed and

delivered by such Selling Stockholder and is a valid and binding instrument of such Selling Stockholder, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity);

(xviii) upon delivery of and payment for the Shares to be sold by each Selling Stockholder (other than ADM) pursuant to this Agreement, each Underwriter that takes delivery without notice of any adverse claim will be a protected purchaser with respect to such Shares within the meaning of Article 8 of the Uniform Commercial Code and good and clear title to such Shares will pass to such Underwriter, free of all restrictions on transfer, liens, encumbrances, security interests, equities and claims whatsoever; and

(xix) the execution, delivery and performance of this Agreement, the Custody Agreement and the Power of Attorney by such Selling Stockholder (other than ADM) and the compliance by such Selling Stockholder with all the provisions hereof and thereof and the consummation of the transactions contemplated hereby and thereby (A) will not require any consent, approval, authorization or other order of, or qualification with, any federal, Delaware corporate or Texas governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states), (B) to such counsel's knowledge, will not violate or constitute a breach of any of the terms or provisions of, or a default under, any indenture, loan agreement, mortgage, lease or other agreement or instrument to which such Selling Stockholder is a party or by which any property of such Selling Stockholder is bound, and (C) will not violate any applicable federal, Delaware corporate or Texas law, rule or regulation (other than federal or state securities or blue sky laws, rules or regulations, as to which such counsel need express no opinion), or, to such counsel's knowledge, any judgment, order or decree of any court or any governmental body or agency having jurisdiction over such Selling Stockholder or any property of such Selling Stockholder.



Such counsel shall also state that they have participated in conferences with directors, officers and other representatives of the Company, representatives of the independent public accountants for the Company, representatives of the Underwriter, and counsel for the Underwriter, at which conferences the contents of the Registration Statement, the Prospectus and related matters were discussed, and although such counsel have not independently verified and are not passing upon and assume no responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, no facts have come to such counsel's attention that lead such counsel to believe that the Registration Statement, on the effective date thereof or the date hereof, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading, or that the Prospectus, on the date thereof or on the Closing Date, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no view with respect to the financial statements and notes thereto, the financial statement schedules and the other financial, accounting and statistical data included in the Registration Statement or the Prospectus).

The opinion of Baker & McKenzie described in Section 9(g) above shall be rendered to you at the request of the Company and the Selling Stockholders (other than ADM) and shall so state therein. Insofar as any of the matters described in Sections 9(g)(i) and (v) are governed by federal or state laws of Mexico, the opinions with respect to such matters may be rendered by Von Wobeser Y Sierra, S.C. Any such opinion shall state therein that it is being rendered to you at the request of the Company.

(h) You shall have received on the Closing Date an opinion (satisfactory to you and counsel for the Underwriters), dated the Closing Date, of David J. Smith, Vice President and General Counsel for ADM, to the effect that:

(i) ADM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;

(ii) this Agreement has been duly authorized, executed and delivered by ADM;

(iii) ADM is the lawful owner of the Shares to be sold by ADM pursuant to this Agreement;

(iv) ADM has full legal right, power and authority, and all authorization and approval required by law, to enter into this Agreement and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder in the manner provided herein;

(v) upon delivery of and payment for the Shares to be sold by ADM pursuant to this Agreement, each Underwriter that takes delivery without notice of any adverse claim will be a protected purchaser with respect to such Shares within the meaning of Article 8 of the Uniform Commercial Code and good and clear title to such Shares will pass to such Underwriter, free of all restrictions on transfer, liens, encumbrances, security interests, equities and claims whatsoever; and

(vi) the execution, delivery and performance of this Agreement by ADM and the compliance by ADM with all the provisions hereof and the consummation of the transactions contemplated hereby and thereby (A) will not require any consent, approval, authorization or other order of, or qualification with, any federal, Delaware corporate, or Illinois governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states), (B) will not violate or constitute a breach of any of the terms or provisions of, or a default under, (1) the organizational documents of ADM, or (2) any indenture, loan agreement, mortgage, lease or other agreement or instrument to which ADM is a party or by which any property of ADM is bound, and (C) will not violate any applicable federal, Delaware corporate or Illinois law, rule or regulation (other than federal or state securities or blue sky laws, rules or regulations, as to which such counsel need express no opinion), or, to such counsel's knowledge, any judgment, order or decree of any court or any governmental body or agency having jurisdiction over ADM or any property of ADM.

(i) You shall have received on the Closing Date an opinion, dated the Closing Date, of Weil, Gotshal & Manges LLP, counsel for the Underwriters, as to the matters referred to in Sections 9(g)(iv), 9(g)(vi) (but only with respect to the Company), 9(g)(vii), and 9(g)(xiv).

Such counsel shall also state that they have participated in conferences with directors, officers and other representatives of the Company, counsel for the Company, representatives of the independent public accountants for the Company, and representatives of the Underwriter, at which conferences the contents of the Registration Statement, the Prospectus and related matters were discussed, and although such counsel have not independently verified and are not passing upon and assume no responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, no facts have come to such counsel's attention that lead such counsel to believe that the Registration Statement, on the effective date thereof or the date hereof, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading, or that the Prospectus, on the date thereof or on the Closing Date, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no view with respect to the financial statements and notes thereto, the financial statement schedules and the other financial and accounting data included in the Registration Statement or the Prospectus).

(j) You shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to you, from Ernst & Young LLP, independent public accountants, containing the information and statements of the type ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(k) The Company shall have delivered to you the agreements specified in Section 2 hereof which agreements shall be in full force and effect on the Closing Date.

(l) The Shares shall have been duly listed, subject, if applicable, to notice of issuance, on the New York Stock Exchange.

(m) The Company and the Selling Stockholders shall not have failed at or prior to the Closing Date to perform or comply with any of the agreements herein contained and required to be performed or complied with by the Company or the Selling Stockholders, as the case may be, at or prior to the Closing Date.

(n) You shall have received on the Closing Date from each Selling Stockholder a properly completed and executed United States Treasury Department Form W-9.

The several obligations of the Underwriters to purchase any Additional Shares hereunder are subject to the delivery to you on the applicable Option Closing Date of such documents as you may reasonably request with respect to the good standing of the Company, the due authorization and issuance of such Additional Shares and other matters related to the issuance of such Additional Shares.

Section 10. Effectiveness of Agreement and Termination. This

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Agreement shall become effective upon the execution and delivery of this Agreement by the parties hereto.

This Agreement may be terminated at any time prior to the Closing Date by you by written notice to the Sellers if any of the following has occurred:

(i) any outbreak or escalation of hostilities or other national or international calamity or crisis or change in economic conditions or in the financial markets of the United States or elsewhere that, in your judgment, is material and adverse and, in your judgment, makes it impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus, (ii) the suspension or material limitation of trading in securities or other instruments on the New York Stock Exchange, the American Stock Exchange, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange, the Chicago Board of Trade or the Nasdaq National Market or limitation on prices for securities or other instruments on any such exchange or the Nasdaq National Market, (iii) the suspension of trading of any securities of the Company on any exchange or in the over-the-counter market, (iv) the enactment, publication,

decree or other promulgation of any federal or state statute, regulation, rule or order of any court or other governmental authority which in your opinion materially and adversely affects, or will materially and adversely affect, the business, prospects, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, (v) the declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in your opinion has a material adverse effect on the financial markets in the United States.

If on the Closing Date or on an Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase the Firm Shares or Additional Shares, as the case may be, which it or they have agreed to purchase hereunder on such date and the aggregate number of Firm Shares or Additional Shares, as the case may be, which such defaulting Underwriter or Underwriters, as the case may be, agreed but failed or refused to purchase is not more than one-tenth of the total number of Shares to be purchased on such date by all Underwriters, each non-defaulting Underwriter shall be obligated severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I bears to the total number of Firm Shares which all the non-defaulting Underwriters, as the case may be, have agreed to purchase, or in such other proportion as you may specify, to purchase the Firm Shares or Additional Shares, as the case may be, which such defaulting Underwriter or Underwriters, as the case may be, agreed but failed or refused to purchase on such date; provided that in no event shall the number of Firm Shares or Additional Shares, as the case may be, which any Underwriter has agreed to purchase pursuant to Section 2 hereof be increased pursuant to this Section 10 by an amount in excess of one-ninth of such number of Firm Shares or Additional Shares, as the case may be, without the written consent of such Underwriter. If on the Closing Date any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased by all Underwriters and arrangements satisfactory to you, the Company and the Selling Stockholders for purchase of such Firm Shares are not made within 48 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter, the Company or the Selling Stockholders. In any such case which does not result in termination of this Agreement, either you or the Sellers shall have the right to postpone the Closing Date, but in no event for longer than seven days, in

order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. If, on an Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased on such date, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase such Additional Shares or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase on such date in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of any such Underwriter under this Agreement.

Section 11.     Agreements of the Selling Stockholders.     Each Selling

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Stockholder agrees with you and the Company:

(a) To pay or to cause to be paid all transfer taxes payable in connection with the transfer of the Shares to be sold by such Selling Stockholder to the Underwriters.

(b) To do and perform all things to be done and performed by such Selling Stockholder under this Agreement prior to the Closing Date and to satisfy all conditions precedent to the delivery of the Shares to be sold by such Selling Stockholder pursuant to this Agreement.

(c) To pay the fees and expenses of any counsel engaged by, or on behalf of, such Selling Stockholder.

Section 12.     Miscellaneous.     Notices given pursuant to any provision

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of this Agreement shall be addressed as follows: (i) if to the Company, to Pilgrim's Pride Corporation, 110 South Texas Street, P.O. Box 93, Pittsburg, Texas 75686, Attention: Clifford E. Butler, (ii) if to the Selling Stockholders (other than ADM), to Lonnie A. Pilgrim and Clifford E. Butler c/o Pilgrim's Pride Corporation, 110 South Texas Street, P.O. Box 93, Pittsburg, Texas 75686, (iii) if to ADM, to 4666 Faries Parkway, Decatur, Illinois 62526, Attention: Treasurer, and (iv) if to any Underwriter or to you, to you c/o Donaldson, Lufkin & Jenrette Securities Corporation, 277 Park Avenue, New York, New York 10172, Attention: Syndicate Department, or in any case to such other address as the person to be notified may have requested in writing.

The respective indemnities, contribution agreements, representations, warranties and other statements of the Company, the Selling Stockholders and the several Underwriters set forth in or made pursuant to this Agreement shall remain operative and in full force and effect, and will survive delivery of and payment for the Shares, regardless of (i) any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, the officers or directors of any Underwriter, any person controlling any Underwriter, the Company, the officers or directors of the Company, any person controlling the Company, any Selling Stockholder or any person controlling such Selling Stockholder, (ii) acceptance of the Shares and payment for them hereunder and (iii) termination of this Agreement.

If for any reason the Shares are not delivered by or on behalf of any Seller as provided herein (other than as a result of any termination of this Agreement pursuant to Section 10), each Seller whose Shares are not so delivered shall reimburse the several Underwriters for all out-of-pocket expenses (including the fees and disbursements of counsel) incurred by them. Notwithstanding any termination of this Agreement, the Company shall be liable for all expenses which it has agreed to pay pursuant to Section 5(i) hereof and the Selling Stockholders shall be liable for all expenses which they have agreed to pay pursuant to Section 11 hereof. Each Seller also agrees to reimburse the several Underwriters, their directors and officers and any persons controlling any of the Underwriters for any and all fees and expenses (including, without limitation, the fees disbursements of counsel) incurred by them in connection with enforcing their rights against such Seller hereunder (including, without limitation, pursuant to Section 8 hereof).

Except as otherwise provided, this Agreement has been and is made solely for the benefit of and shall be binding upon the Company, the Selling Stockholders, the Underwriters, the Underwriters' directors and officers, any controlling persons referred to herein, the Company's directors and the Company's officers who sign the Registration Statement and their respective successors and assigns, all as and to the extent provided in this Agreement, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include a purchaser of any of the Shares from any of the several Underwriters merely because of such purchase.

This Agreement shall be governed and construed in accordance with the laws of the State of New York.

This Agreement may be signed in various counterparts which together shall constitute one and the same instrument.



Please confirm that the foregoing correctly sets forth the agreement among the Company, the Selling Stockholders and the several Underwriters.

Very truly yours,

PILGRIM'S PRIDE CORPORATION

By: \_\_\_\_\_

Name: Clifford E. Butler  
Title: Vice Chairman of the Board  
and Executive President

ARCHER-DANIELS-MIDLAND COMPANY

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

THE SELLING STOCKHOLDERS NAMED IN SCHEDULE II HERETO  
(OTHER THAN ARCHER-DANIELS-MIDLAND COMPANY), ACTING  
SEVERALLY

By: \_\_\_\_\_

Clifford E. Butler, Attorney-in-Fact

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
A.G. EDWARDS & SONS, INC.

Acting severally on behalf of  
themselves and the several  
Underwriters named in  
Schedule I hereto

By DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

SCHEDULE I

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Underwriters -----	Number of Firm Shares to be Purchased -----
Donaldson, Lufkin & Jenrette Securities Corporation	
A.G. Edwards & Sons, Inc.	

Total                      6,261,382

SCHEDULE II

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Selling Stockholders

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Name - - - - -	Number of Firm Shares Being Sold -----
Archer-Daniels-Midland Company	5,514,900
Patrick Wayne Pilgrim	370,982
Greta Pilgrim Owens	375,500
Total	6,261,382

Annex I

Lonnie "Bo" Pilgrim  
Clifford E. Butler  
Lindy M. "Buddy" Pilgrim  
David Van Hoose  
Richard A. Cogdill  
Richard J. Springstead  
Robert L. Hendrix  
Charles L. Black  
Robert E. Hilgenfeld  
Vance C. Miller, Sr.  
James G. Vetter, Jr.  
Donald L. Wass  
Lonnie Ken Pilgrim

## Annex II

8,575,460 shares of capital stock of Gallina Pesada S.A. de C.V. are issued and outstanding, of which (i) 4,716,504 shares are owned by the Company, directly or indirectly through one or more subsidiaries, free and clear of any security interest, claim, lien, encumbrance or adverse interest of any nature, and (ii) 3,858,956 shares are owned by certain other stockholders.

[LETTERHEAD OF BAKER & MCKENZIE APPEARS HERE]

July 17, 1997

Pilgrim's Pride Corporation  
110 South Texas Street  
Pittsburg, Texas 75686

Ladies and Gentlemen:

This firm has acted as counsel for Pilgrim's Pride Corporation, a Delaware corporation (the "Company"), in connection with the preparation of the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 13, 1997 (together with any amendments thereto, the "Registration Statement"), as it relates to the proposed offering of an aggregate of 6,261,382 shares of common stock, par value \$.01 per share, of the Company (the "Shares"), all of which are to be sold by certain selling stockholders of the Company. Up to 939,207 additional shares of common stock, par value \$.01 per share, of the Company (the "Option Shares"), are subject to an over-allotment option to be granted by the Company.

In reaching the opinion set forth below, this firm has reviewed the Company's Certificate of Incorporation, the Company's Amended and Restated Corporate Bylaws, minutes of meetings of the Company's Board of Directors, the form of Underwriting Agreement filed as an exhibit to the Registration Statement (the "Underwriting Agreement"), certificates of public officials, and matters of law that this firm deemed relevant.

Based on and subject to the foregoing and subject further to the assumptions, exceptions, and qualifications stated below, this firm expresses the opinion that each of the Shares and Option Shares registered pursuant to the Registration Statement, when and if delivered in accordance with the terms of the Underwriting Agreement, will be legally issued, fully paid, and non-assessable.

The opinion expressed above is subject to the following assumptions, exceptions, and qualifications:

This firm has assumed that (a) all information contained in all documents reviewed by this firm is true and correct, (b) all signatures on all documents reviewed by this firm are genuine, (c) all documents submitted to this firm as originals are true and complete, (d) all documents submitted as copies are true and complete copies of the originals thereof, (e) each natural person signing any document reviewed by this firm had the legal capacity to do so, (f) each person signing in a representative capacity any document reviewed by this firm had authority to sign in such capacity, and (g) the laws of any jurisdiction other than the State of Texas that govern any of the documents reviewed by this firm do not modify the terms that appear in any such document.

The opinion expressed above is limited to the laws of the State of Texas, the General Corporation Law of the State of Delaware and the federal laws of the United States of America.

This opinion letter may be filed as an exhibit to the Registration Statement. Consent is also given to the reference to this firm under the caption "Legal Matters" in the prospectus contained in the Registration Statement. In giving this consent, this firm does not thereby admit that it comes within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

Very truly yours,

/s/ Baker & McKenzie

BAKER & MCKENZIE

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Experts" and "Selected Consolidated Financial Data" and to the use of our report dated November 5, 1996, in the Registration Statement (Form S-1) and related Prospectus of Pilgrim's Pride Corporation for the registration of 7,200,589 shares of its common stock.

/s/Ernst & Young LLP

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Ernst & Young LLP

Dallas, Texas

July 18, 1997