TEMPUR PEDIC INTERNATIONAL INC
Form 10-Q
April 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from

to

Commission file number 001-31922

TEMPUR-PEDIC INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	33-1022198 (I.R.S. Employer Identification No.)

1713 Jaggie Fox Way
Lexington, Kentucky 40511
(Address, including zip code, of principal executive offices)

Registrant’s telephone number, including area code: (800) 878-8889

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

(Do not check if a smaller reporting company) Smaller reporting company o

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

The number of shares outstanding of the registrant’s common stock as of April 27, 2009 was 74,894,372 shares.

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Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q, including the information incorporated by reference herein, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which include information concerning our plans, objectives, goals, strategies, future events, future revenues or performance, the impact of the macroeconomic environment in both the U.S. and internationally on sales and our business segments, investments in operating infrastructure, decrease in capital expenditures, the impact of consumer confidence, the antitrust class action lawsuit and similar issues, pending tax assessments, statements regarding our financial flexibility, statements relating to the impact of initiatives to accelerate growth, expand market share and attract sales from the standard mattress market, expand business within established accounts, reduce costs and operating expenses and improve manufacturing productivity, the initiatives to improve gross margin, the vertical integration of our business, our ability to source raw materials effectively, the development, rollout and market acceptance of new products, our ability to further invest in the business and in brand awareness, ability to meet financial obligations and continue to comply with the terms of our credit facility, the effects of changes in foreign exchange rates on our reported earnings, our expected sources of cash flow, our ability to effectively manage cash and our debt/leverage ratio, ability to align costs with sales expectations, and other information that is not historical information. Many of these statements appear, in particular, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in ITEM 2 of Part I of this report. When used in this report, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes" and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are based upon our current expectations and various assumptions. There can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including under the heading "Risk Factors" under ITEM IA of Part II of this report and under the heading "Risk Factors" under ITEM 1A of Part 1 of our annual report on Form 10-K for the year ended December 31, 2008. There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us apply only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

When used in this report, except as specifically noted otherwise, the term "Tempur-Pedic International" refers to Tempur-Pedic International Inc. only, and the terms "Company," "we," "our," "ours" and "us" refer to Tempur-Pedic International Inc. and its consolidated subsidiaries.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per common share amounts)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales	$ 177,104	$ 247,222
Cost of sales	95,243	139,141
Gross profit	81,861	108,081
Selling and marketing expenses	33,872	53,163
General, administrative and other expenses	22,108	25,585
Operating income	25,881	29,333
Other income (expense), net:		
Interest expense, net	(4,571)	(7,691)
Other income (expense), net	348	(1,019)
Total other expense	(4,223)	(8,710)
Income before income taxes	21,658	20,623
Income tax provision	8,320	7,109
Net income	$ 13,338	$ 13,514
Earnings per common share:		
Basic	$ 0.18	$ 0.18
Diluted	$ 0.18	$ 0.18
Cash dividend per common share	$ —	$ 0.08
Weighted average common shares outstanding:		
Basic	74,874	74,591
Diluted	74,959	75,188

See accompanying Notes to Condensed Consolidated Financial Statements.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 21,127	$ 15,385
Accounts receivable, net	90,500	99,811
Inventories	60,791	60,497
Prepaid expenses and other current assets	12,284	9,233
Deferred income taxes	16,475	11,888
Total Current Assets	201,177	196,814
Property, plant and equipment, net	178,016	185,843
Goodwill	192,339	192,569
Other intangible assets, net	66,328	66,823
Other non-current assets	4,058	4,482
Total Assets	$ 641,918	$ 646,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 40,140	$ 41,355
Accrued expenses and other current liabilities	68,312	65,316
Income taxes payable	7,934	7,783
Total Current Liabilities	116,386	114,454
Long-term debt	400,000	419,341
Deferred income taxes	28,667	28,371
Other non-current liabilities	12,550	11,922
Total Liabilities	557,603	574,088
Commitments and contingencies—see Note 10		
Total Stockholders' Equity	84,315	72,443
Total Liabilities and Stockholders' Equity	$ 641,918	$ 646,531

See accompanying Notes to Condensed Consolidated Financial Statements.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,338	$ 13,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,727	8,334
Amortization of stock-based compensation	1,903	1,979
Amortization of deferred financing costs	172	185
Bad debt expense	2,233	985
Deferred income taxes	(4,742)	(1,158)
Foreign currency adjustments	(311)	1,156
Loss on sale of equipment and other	—	41
Changes in operating assets and liabilities	5,679	(451)
Net cash provided by operating activities	25,999	24,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,423)	(2,793)
Acquisition of business, net of cash acquired	—	(1,498)
Payments for other	(218)	(145)
Net cash used by investing activities	(1,641)	(4,436)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term revolving credit facility	61,500	7,221
Repayments of long-term revolving credit facility	(79,721)	(12,233)
Repayments of long-term debt	—	77
Proceeds from issuance of common stock	—	498
Excess tax benefit from stock based compensation	—	323
Dividend paid to stockholders	—	(5,965)
Payments for other	—	(14)
Net cash used by financing activities	(18,221)	(10,247)
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH	(395)	3,350
Increase in cash and cash equivalents	5,742	13,252
CASH AND CASH EQUIVALENTS, beginning of period	15,385	33,315
CASH AND CASH EQUIVALENTS, end of period	$ 21,127	$ 46,567
Supplemental cash flow information:		
Cash paid during the period for:		

Interest	$ 4,550	$ 7,589
Income taxes, net of refunds	$ 11,375	$ 10,737

See accompanying Notes to Condensed Consolidated Financial Statements.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In thousands, except per common share amounts)

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation and Description of Business—Tempur-Pedic International Inc., a Delaware corporation, together with its subsidiaries is a U.S. based, multinational company. The term “Tempur-Pedic International” refers to Tempur-Pedic International Inc. only, and the term “Company” refers to Tempur-Pedic International Inc. and its consolidated subsidiaries. Tempur World, Inc. was formed on January 1, 2000 to combine the manufacturing facilities and the global distribution capabilities of all TEMPUR® products, and Tempur-Pedic International Inc. was formed in 2002 to acquire Tempur World, Inc. This acquisition (Tempur Acquisition) was effective as of November 1, 2002.

The Company manufactures, markets, and sells pillows, mattresses, and other related products. The Company manufactures essentially all its pressure-relieving TEMPUR® products at three manufacturing facilities, with one located in Denmark and two in the U.S. The Company has sales distribution subsidiaries operating in the U.S., Europe, and Asia Pacific and has third party distribution arrangements in certain other countries where it does not have subsidiaries. The Company sells its products through four sales channels: Retail, Direct, Healthcare, and Third party.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements of the Company and related footnotes for the year ended December 31, 2008, included in the Company’s Annual Report on Form 10-K.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

(b) Basis of Consolidation—The accompanying financial statements include the accounts of Tempur-Pedic International and its subsidiaries. All subsidiaries are wholly owned. Intercompany balances and transactions have been eliminated. The Company does not hold any interest in variable-interest entities.

(c) Use of Estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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. The Company’s results are affected by economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies, and changes in the prices of raw materials, can have a significant effect on operations. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

(d) Inventories—Inventories are stated at the lower of cost or market, determined by the first-in, first-out method, and consist of the following:

		March 31, 2009		December 31, 2008
Finished goods	$	40,077	$	41,385
Work-in-process		5,647		5,706
Raw materials and supplies		15,067		13,406
	$	60,791	$	60,497

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

(e) Accrued Sales Returns—Estimated sales returns are provided at the time of sale based on historical sales channel return rates. The level of sales returns differs by channel with the Direct channel typically experiencing the highest rate of return. Estimated future obligations related to these products are provided by a reduction of sales in the period in which the revenue is recognized. The Company allows product returns up to 120 days following a sale through certain sales channels and on certain products. Accrued sales returns are included in Accrued expenses and other in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for sales returns from December 31, 2008 to March 31, 2009:

Balance as of December 31, 2008	$	3,804
Amounts accrued		8,056
Returns charged to accrual		(8,477)
Balance as of March 31, 2009	$	3,383

(f) Warranties—The Company provides a 20-year warranty for U.S. sales and a 15-year warranty for non-U.S. sales on mattresses, each prorated for the last 10 years. The Company also provides a 2-year to 3-year warranty on pillows. Estimated future obligations related to these products are charged to operations in the period in which the related revenue is recognized. Estimates of warranty expenses are based primarily on historical claim experience and product testing. Warranties are included in Accrued expenses and other in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for warranties from December 31, 2008 to March 31, 2009:

Balance as of December 31, 2008	$	3,903
Amounts accrued		873
Warranties charged to accrual		(1,039)
Balance as of March 31, 2009	$	3,737

(g) Revenue Recognition—Sales of products are recognized when persuasive evidence of an arrangement exists, products are shipped and title passes to customers and the risks and rewards of ownership are transferred, the sale price is fixed or determinable and collectability is reasonably assured. The Company extends volume discounts to certain customers and reflects these amounts as a reduction of Net sales. The Company also reports Net sales net of tax assessed by qualifying governmental authorities. The Company extends credit based on the creditworthiness of its customers. No collateral is required on sales made in the normal course of business.

The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. The Company regularly reviews the adequacy of its allowance for doubtful accounts. The Company determines the allowance based on historical write-off experience and current economic conditions and also considers factors such as customer credit, past transaction history with the customer and changes in customer payment terms when determining whether the collection of a receivable is reasonably assured. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts included in Accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets was $7,519 and $6,726 as of March 31, 2009 and December 31, 2008, respectively.

(h) Advertising Costs—The Company expenses advertising costs as incurred except for production costs and advance payments, which are deferred and expensed when advertisements run for the first time. Direct response advance payments are deferred and are amortized over the life of the program.

(i) Research and Development Expenses—Research and development expenses for new products are expensed as they are incurred. Research and development costs charged to expense were $1,459 and $1,833 for the three months ended March 31, 2009 and March 31, 2008, respectively.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

(2) Recently Issued Accounting Pronouncements

On May 9, 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with U.S. GAAP. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the impact of the adoption of this pronouncement.

(3) Goodwill and Other intangible assets

The following table summarizes information relating to the Company's Other intangible assets:

		March 31, 2009			December 31, 2008		
	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Unamortized indefinite life intangible assets:							
Trademarks		$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ 55,000
Amortized intangible assets:							
Technology	10	$ 16,000	$ 10,267	$ 5,733	$ 16,000	$ 9,866	$ 6,134
Patents & other trademarks	5-20	11,769	7,835	3,934	11,655	7,767	3,888
Customer database	5	4,808	4,473	335	4,838	4,455	383
Foam formula	10	3,700	2,374	1,326	3,700	2,282	1,418
Total		$ 91,277	$ 24,949	$ 66,328	$ 91,193	$ 24,370	$ 66,823

Amortization expense relating to intangible assets for the Company was $606 and $611 for the three months ended March 31, 2009 and March 31, 2008, respectively.

The following summarizes changes to the Company's Goodwill, by reportable business segment:

	Domestic	International	Total
Balance as of December 31, 2008	$ 89,929	$ 102,640	$ 192,569
Foreign currency translation adjustments	—	(230)	(230)

Balance as of March 31, 2009	$	89,929	$	102,410	$	192,339

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

(4) Long-term Debt

(a) Long-term Debt—Long-term debt for the Company consists of the following:

	March 31, 2009	December 31, 2008
2005 Senior Credit Facility:		
Domestic Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (3.96% and 4.44% as of March 31, 2009 and December 31, 2008, respectively), commitment through and due June 8, 2012	$ 400,000	$ 403,500
Foreign Long-Term Revolving Credit Facility payable to lenders, interest at Index Rate or LIBOR plus applicable margin (2.59% as of December 31, 2008), commitment through and due June 8, 2012	—	15,841
Long-term debt	$ 400,000	$ 419,341

(b) Secured Credit Financing—On October 18, 2005, the Company entered into a credit agreement (2005 Senior Credit Facility) with a syndicate of banks. The 2005 Senior Credit Facility, as amended, consists of domestic and foreign credit facilities (the Revolvers) that provide for the incurrence of indebtedness up to an aggregate principal amount of $640,000 and matures in 2012. The domestic credit facility is a five-year, $615,000 revolving credit facility (Domestic Revolver). The foreign credit facility is a five-year $25,000 revolving credit facility (Foreign Revolver). The Revolvers provide for the issuance of letters of credit which, when issued, constitute usage and reduce availability under the Revolvers. The aggregate amount of letters of credit outstanding under the Revolvers was $5,573 at March 31, 2009. After giving effect to letters of credit and $400,000 in borrowings under the Domestic Revolver, total availability under the Revolvers was $234,427 as of March 31, 2009. Both credit facilities bear interest at a rate equal to the 2005 Senior Credit Facility's applicable margin, as determined in accordance with a performance pricing grid set forth in Amendment No. 3, plus one of the following indexes: London Inter-Bank Offering Rate (LIBOR) and for U.S. dollar-denominated loans only, a base rate. The base rate of U.S. dollar-denominated loans is defined as the higher of either the Bank of America prime rate or the Federal Funds rate plus ..50%. The Company also pays an annual facility fee on the total amount of the 2005 Senior Credit Facility. The facility fee is calculated based on the consolidated leverage ratio and ranges from .125% to .25%.

In May 2008, the Company entered into a three-year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates associated with the 2005 Senior Credit Facility. Refer to Note 6, "Derivative Financial Instruments" for additional information regarding the Company's derivative instruments, including this interest rate swap.

The 2005 Senior Credit Facility is guaranteed by Tempur-Pedic International, as well as certain other subsidiaries of Tempur-Pedic International, and is secured by certain fixed and intangible assets of Dan Foam ApS and substantially all the Company's U.S. assets. The 2005 Senior Credit Facility contains certain financial covenants and requirements affecting the Company, including a consolidated interest coverage ratio and a consolidated leverage ratio. The Company was in compliance with all covenants as of March 31, 2009.

(5) Fair Value Measurements

The Company applies the provisions of SFAS 157, “Fair Value Measurements” (SFAS 157). SFAS 157 establishes a three-level hierarchy for fair value measurements. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

- Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. At March 31, 2009, the Company had an interest rate swap, a cross-currency swap and foreign currency forward contracts recorded at fair value. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for credit risk and restrictions and other terms specific to the contracts. As of March 31, 2009, the Company had no assets or liabilities measured at fair value on a nonrecurring basis. The following table provides a summary by level of the fair value of assets and liabilities measured on a recurring basis:

		Fair Value Measurements at March 31, 2009 Using:		
	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term foreign currency forward contracts	$ 226	$ —	$ 226	$ —
Liabilities:				
Interest rate swap	$ 10,790	$ —	$ 10,790	$ —
Long-term foreign currency forward contracts	1,465	—	1,465	—

The carrying value of Cash and cash equivalents, Accounts receivable and Accounts payable approximate fair value because of the short-term maturity of those instruments. Borrowings under the 2005 Senior Credit Facility (as defined in Note 4(b)) are at variable interest rates and accordingly their carrying amounts approximate fair value.

(6) Derivative Financial Instruments

In the first quarter of 2009, the Company adopted SFAS 161, “Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 provides for enhanced disclosures of how derivative and hedging activities affect an entity’s financial position, financial performance and cash flows. The adoption of SFAS 161 had no effect on the Company’s results of operations or consolidated financial position.

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates and foreign currency exchange rates. The Company uses various derivative contracts, primarily interest rate swaps and foreign currency exchange forward contracts to manage risks from these market fluctuations. The financial instruments used by the Company are straight-forward, non-leveraged instruments. The counterparties to these financial instruments are financial institutions with strong credit ratings. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions.

SFAS 133, “Accounting for Derivative Instruments and Hedging Activities, as amended” (SFAS 133R), requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

Interest Rate Risk

The Company is exposed to changes in interest rates on our 2005 Senior Credit Facility. In order to manage this risk, in May 2008, the Company entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. The Company designated this interest rate swap as a cash flow hedge of floating rate borrowings and expects the hedge to be highly effective in offsetting fluctuations in the designated interest payments resulting from changes in the benchmark interest rate. The gains and losses on the designated swap agreement will offset losses and gains on the transactions being hedged. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in cash flows of the hedged transaction. The fair value of the interest rate swap is estimated as described in Note 5, "Fair Value Measurements" taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As a result of this swap, the Company pays at a fixed rate and receives payment at a variable rate. The swap effectively fixed the floating LIBOR-based interest rate to 3.755% on $350,000 of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap declines as follows: to $300,000 on November 28, 2008 (through November, 2009); to $200,000 on November 28, 2009 (through November, 2010); and to $100,000 million on November 28, 2010 (through November 28, 2011). The Company will select the LIBOR-based rate on the hedged portion of the 2005 Senior Credit Facility during the term of the swap. The effective portion of the change in value of the swap is reflected as a component of Accumulated other comprehensive loss (OCI) and recognized as Interest expense, net as payments are paid or accrued. The remaining gain or loss in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any (i.e., the ineffectiveness portion) or hedge components excluded from the assessment of effectiveness are recognized as Interest expense, net during the current period.

As of March 31, 2009 the total notional amount of the Company's interest rate swap agreement is $300,000. Over the next 12 months, the Company expects to reclassify $6,911 of deferred losses on derivative instruments from Accumulated other comprehensive loss to earnings due to the payment of variable interest associated with the 2005 Senior Credit Facility.

Foreign Currency Exposures

The Company is exposed to foreign currency risk related to intercompany debt and interest payments. To manage the risk associated with fluctuations in foreign currencies, the Company enters into foreign currency forward contracts. The Company does not designate any of these foreign currency forward contracts as hedging instruments under SFAS 133R, however considers the contracts as economic hedges. Accordingly, changes in the fair value of these instruments effects earnings during the current period. These foreign currency forward contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from payments in foreign currencies. The fair value of foreign currency agreements are estimated as described in Note 5, "Fair Value Measurements" taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As of March 31, 2009, the Company had foreign currency forward contracts with expiration dates ranging from April 20, 2009 through June 18, 2010. The changes in fair value of these foreign currency hedges are included as a component of Other income (expense), net. As of March 31, 2009 the Company had the following outstanding foreign currency forward contracts:

Foreign Currency	Currency Denomination	
Euro	€	51,100
Japanese Yen	¥	303,940
United States Dollar	$	985

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

As of March 31, 2009 and December 31, 2008, the fair value carrying amount of the Company's derivative instruments were recorded as follows:

	Asset Derivatives			
	March 31, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under SFAS 133R				
Foreign exchange forward contracts	Other current assets	$ 226	Other current assets	$ 96
Total derivatives not designated as hedging instruments under SFAS 133R		226		96
Total asset derivatives		$ 226		$ 96

	Liability Derivatives			
	March 31, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133R				
Interest rate swap	Other non-current liabilities	$ 10,790	Other non-current liabilities	$ 11,610
Total derivatives designated as hedging instruments under SFAS 133R		$ 10,790		$ 11,610
Derivatives not designated as hedging instruments under SFAS 133R				
Foreign exchange forward contracts	Other non-current liabilities	$ 1,465	Other non-current liabilities	$ —
Total derivatives not designated as hedging instruments under SFAS 133R		1,465		—
Total liability derivatives		$ 12,255		$ 11,610

The effect of derivative instruments on the Condensed Consolidated Statement of Income for the three months ended March 31, 2009 was as follows:

Derivatives in SFAS 133R Cash Flow	Amount of Gain/(Loss)	Location of Loss Reclassified from	Amount of Gain/(Loss)	Location of Gain/(Loss)	Amount of Gain/(Loss)

Hedging Relationships	Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Accumulated OCI into Income (Effective Portion)	Reclassified from Accumulated OCI into Income (Effective Portion)	Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 820	Interest expense, net	$ (1,411)	Interest expense, net	$ —
Total	$ 820		$ (1,411)		$ —

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

Derivatives Not Designated as Hedging Instruments under SFAS 133R	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	
Foreign exchange forward contracts	Other income (expense), net		(740)
Total		$	(740)

As of March 31, 2009 and December 31, 2008, accumulated other comprehensive loss associated with the interest rate swap qualifying for hedge accounting treatment was $6,582, net of taxes of $4,208 and $7,082, net of taxes of $4,528, respectively.

(7) Stockholders' Equity

(a) Capital Stock—Tempur-Pedic International's authorized shares of capital stock are 300,000 shares of common stock and 10,000 shares of preferred stock. Subject to preferences that may be applicable to any outstanding preferred stock, holders of the common stock are entitled to receive ratably such dividends as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution, or winding up, the holders of the common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

(b) Share Repurchase Programs—On October 16, 2007, the Board of Directors authorized a repurchase authorization of up to $300,000 of the Company's common stock. Under the existing share repurchase authorization, the Company has $280,100 available for repurchase as of March 31, 2009. No shares were repurchased during the first quarter of 2009. Share repurchases under this authorization may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts as the Company and a committee of the Board deem appropriate. This share repurchase authorization may be suspended, limited or terminated at any time without notice.

(8) Other Balance Sheet Items

(a) Property, Plant and Equipment—

Property, plant and equipment, net consists of the following:

	March 31, 2009	December 31, 2008
Land and buildings	$ 119,905	$ 122,256
Machinery and equipment, furniture and fixtures, and other	192,262	192,029
Construction in progress	3,808	5,321
	315,975	319,606
Accumulated depreciation	(137,959)	(133,763)
	$ 178,016	$ 185,843

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

(b) Accrued expenses and other—

Accrued expenses and other consisted of the following:

	March 31, 2009	December 31, 2008
Salary and related expenses	$ 11,275	$ 11,226
Accrued unrecognized tax benefits	12,348	11,012
Accrued sales and value added taxes	12,444	10,768
Warranty accrual	3,737	3,903
Sales returns	3,383	3,804
Other	25,125	24,603
	$ 68,312	$ 65,316

(c) Accumulated other comprehensive loss—

Accumulated other comprehensive loss consisted of the following:

	March 31, 2009	December 31, 2008
Derivative instruments accounted for as hedges, net of tax of $4,208 and $4,528, respectively	$ (6,582)	$ (7,082)
Foreign currency translation	(9,782)	(5,508)
Accumulated other comprehensive loss	$ (16,364)	$ (12,590)

Comprehensive income for the three months ended March 31, 2009 and 2008 was $9,883 and $25,305, respectively.

(9) Stock-Based Compensation

The Company applies the provisions of SFAS 123R “Share-based Payment” (SFAS 123R) which establishes the accounting for stock-based compensation. The Company currently has three stock-based compensation plans: the 2002 Option Plan (the 2002 Plan), the Amended and Restated 2003 Equity Incentive Plan (the 2003 Plan) and the 2003 Employee Stock Purchase Plan (the ESPP), which are described under the caption “Stock-based Compensation” in the notes to the Consolidated Financial Statements of the Company’s annual report on Form 10-K for the year ended December 31, 2008.

The Company granted new options to purchase 1,416 shares of common stock during the three months ending March 31, 2009. The Company recognized compensation expense of $71 associated with the 2009 grants during the three months ended March 31, 2009. The Company granted new options to purchase 127 shares of common stock during the three months ending March 31, 2008. The Company recognized compensation expense of $82 associated with the 2008 grants during the three months ended March 31, 2008. As of March 31, 2009, there was $3,326 of unrecognized compensation expense associated with the options granted in 2009, which is expected to be recorded over the weighted average remaining vesting period of 3.9 years. The options granted in the three months ended March 31, 2009 had a weighted average grant-date fair value of $2.40 per option, as determined by the Black-Scholes option pricing model using the following assumptions:

TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

Expected volatility of stock	67.6%
Expected life of options, in years	5.0
Risk-free interest rate	1.4%
Expected dividend yield on stock	5.2%

The Company recorded $1,903 and $1,979 of total stock-based compensation expense for the three months ended March 31, 2009 and March 31, 2008, respectively.

(10) Commitments and Contingencies

(a) Purchase Commitments—The Company will, from time to time, enter into limited purchase commitments for the purchase of certain raw materials. Amounts committed under these programs are not significant as of March 31, 2009 or December 31, 2008.

(b) Antitrust Action—On January 5, 2007, a purported class action was filed against the Company in the United States District Court for the Northern District of Georgia, Rome Division (Jacobs v. Tempur-Pedic International, Inc. and Tempur-Pedic North America, Inc., or the Antitrust Action). The Antitrust Action alleges violations of federal antitrust law arising from the pricing of Tempur-Pedic mattress products by Tempur-Pedic North America and certain distributors. The action alleges a class of all purchasers of Tempur-Pedic mattresses in the United States since January 5, 2003, and seeks damages and injunctive relief. Count Two of the complaint was dismissed by the court on June 25, 2007, based on a motion filed by the Company. Following a decision issued by the United States Supreme Court in Leegin Creative Leather Prods., Inc. v. PSKS, Inc. on June 28, 2007, the Company filed a motion to dismiss the remaining two counts of the Antitrust Action on July 10, 2007. On December 11, 2007, that motion was granted and, as a result, judgment was entered in favor of the Company and the plaintiffs' complaint was dismissed with prejudice. On December 21, 2007, the plaintiffs filed a "Motion to Alter or Amend Judgment," which has been fully briefed. On May 1, 2008, that motion was denied. The Jacobs appealed the dismissal of their claims, and the parties argued the appeal before the United States Circuit Court for the Eleventh Circuit on December 11, 2008. The matter has been taken under advisement by the court. The Company continues to strongly believe that the Antitrust Action lacks merit, and intends to defend against the claims vigorously. However, due to the inherent uncertainties of litigation, we cannot predict the outcome of the Antitrust Action at this time, and can give no assurance that these claims will not have a material adverse affect on the Company's financial position or results of operation. Accordingly, the Company cannot make an estimate of the possible ranges of loss.

(c) New York Attorney General—In December 2008, the Office of the Attorney General of the State of New York, Antitrust Bureau (OAG) requested that the Company consider discontinuing its unilateral retail price policy (UPPL) in the State of New York, and informed them that it may bring an enforcement action against the Company under New York law if they chose not to do so. The Company believes that its UPPL complies with state and federal law and, should the OAG challenge the UPPL, intends to vigorously defend it. However, due to the inherent uncertainties of this matter, the Company cannot at this time predict the outcome of any such enforcement action, if brought, and can give no assurance that these claims will not have a material adverse affect on its financial position or results of operation.

The Company is involved in various other legal proceedings incidental to the operations of its business. The Company believes that the outcome of all such pending legal proceedings in the aggregate will not have a materially adverse affect on its business, financial condition, liquidity, or operating results.

(11) Income Taxes

The Company's effective tax rate for the three months ended March 31, 2009 was 38.4%. For the same period in 2008, the effective tax rate was 34.5%. Reconciling items between the federal statutory income tax rate of 35.0% and the effective tax rate includes certain foreign tax rate differentials, state and local income taxes, the tax charge on a previously recognized foreign tax benefit, foreign income currently taxable in the U.S., the production activities deduction, and certain other permanent differences.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

The Company completed the repatriation of foreign earnings in the first quarter of 2009. This repatriation was initiated in the fourth quarter of 2008 and the associated income tax expense was recognized at that time. The Company has not provided for U.S. federal and/or state income and foreign withholding taxes on the remaining $113.9 million of undistributed earnings from non-U.S. operations as of March 31, 2009 because Tempur-Pedic International intends to reinvest such earnings indefinitely outside of the United States. If these earnings were to be distributed, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability.

On October 24, 2007, the Company received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years. The tax assessment relates to the royalty paid by one of Tempur-Pedic International's U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $39.3 million including interest and underpayment premium. On January 23, 2008 the Company filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the Internal Revenue Service (IRS) and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008 the Company filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS has begun analyzing the Bilateral APA in the first quarter of 2009 and issued their initial questions on April 9, 2009. The Company believes it has meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary. It is reasonably possible under FIN 48 that the amount of the total unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to tax examinations by tax authorities in the U.S. for periods prior to 2005, U.S. state and local municipalities for periods prior to 2004, and in non-U.S. jurisdictions for periods prior to 2001. Additionally, the Company is currently under examination by various tax authorities around the world. The Company anticipates it is reasonably possible an increase or decrease in the amount of unrecognized tax benefits could be made in the next twelve months as a result of the statute of limitations expiring and/or the examinations being concluded on these returns. However, the Company does not presently anticipate that any increase or decrease in unrecognized tax benefits will be material to the consolidated financial statements.

(12) Earnings Per Common Share

	Three Months Ended March 31,	
	2009	2008
Numerator:		
Net income	$ 13,338	$ 13,514
Denominator:		
Denominator for basic earnings per common share-weighted average shares	74,874	74,591
Effect of dilutive securities:		

Employee stock options		85		597
Denominator for basic earnings per common share-adjusted weighted average shares		74,959		75,188
Basic earnings per common share	$	0.18	$	0.18
Diluted earnings per common share	$	0.18	$	0.18

The Company excluded 5,675 and 2,104 shares issuable upon exercise of outstanding stock options for the three months ended March 31, 2009 and 2008, respectively, from the Diluted earnings per common share computation because their exercise price was greater than the average market price of Tempur-Pedic International's common stock or they were otherwise anti-dilutive.

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TEMPUR-PEDIC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)—(Continued)
(In thousands, except per common share amounts)

(13) Business Segment Information

The Company operates in two business segments: Domestic and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations. The Domestic segment consists of the two U.S. manufacturing facilities, whose customers include the U.S. distribution subsidiary and certain third party distributors in the Americas. The International segment consists of the manufacturing facility in Denmark, whose customers include all of the distribution subsidiaries and third party distributors outside the Domestic segment. The Company evaluates segment performance based on Net sales and Operating income.

The following table summarizes Total assets by segment:

	March 31, 2009	December 31, 2008
Total assets:		
Domestic	$ 495,446	$ 474,824
International	272,899	282,884
Intercompany eliminations	(126,427)	(111,177)
	$ 641,918	$ 646,531

The following table summarizes other segment information:

	Three Months Ended March 31, 2009	2008
Net sales from external customers:		
Domestic		
Mattresses	$ 75,711	$ 106,872
Pillows	9,845	13,121
Other	20,878	27,925
	$ 106,434	$ 147,918
International		
Mattresses	$ 43,417	$ 61,178
Pillows	13,216	18,495
Other	14,037	19,631
	$ 70,670	$ 99,304
	$ 177,104	$ 247,222
Inter-segment sales:		
Domestic	$ —	$ —
International	224	659
Intercompany eliminations	(224)	(659)
	$ —	$ —

Operating income:				
Domestic	$	7,805	$	3,737
International		18,076		25,596
	$	25,881	$	29,333
Depreciation and amortization (including stock-based compensation amortization):				
Domestic	$	7,321	$	7,585
International		2,309		2,728
	$	9,630	$	10,313
Capital expenditures:				
Domestic	$	390	$	2,033
International		1,033		760
	$	1,423	$	2,793

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying notes included in this Form 10-Q. Unless otherwise noted, all of the financial information in this report is condensed consolidated information for Tempur-Pedic International Inc. or its predecessor. The forward-looking statements in this discussion regarding the mattress and pillow industries, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described under "Special Note Regarding Forward-Looking Statements" and "Risk Factors" elsewhere in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2008. Our actual results may differ materially from those contained in any forward-looking statements. Except as may be required by law, we undertake no obligation to publicly update or revise any of the forward-looking statements contained herein.

Executive Overview

General—We are the leading manufacturer, marketer and distributor of premium mattresses and pillows which we sell in approximately 80 countries under the TEMPUR® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary pressure-relieving TEMPUR® material is temperature sensitive, has a high density and therapeutically conforms to the body.

Business Segment Information—We have two reportable business segments: Domestic and International. These reportable segments are strategic business units that are managed separately based on the fundamental differences in their operations. The Domestic operating segment consists of our U.S. manufacturing facilities, whose customers include our U.S. distribution subsidiary and certain third party distributors in the Americas. The International segment consists of our manufacturing facility in Denmark, whose customers include all of our distribution subsidiaries and third party distributors outside the Domestic operating segment. We evaluate segment performance based on Net sales and Operating income.

Strategy and Outlook

We believe we are the industry leader in terms of profitability. Our long-term goal is also to become the world's largest bedding company in terms of revenue. To achieve our long-term goals while also addressing the current economic environment, we expect to continue to pursue certain key strategies:

- Maintain our focus on premium mattresses and pillows and to regularly introduce new products.
- Invest in increasing our global brand awareness through advertising campaigns that further associate our brand name with better overall sleep and premium quality products.
- Extend our presence and improve our account productivity in both the Domestic and International Retail segments.
- Invest in our operating infrastructure to meet the requirements of our business, including investments in our research and development capabilities.
-

Take actions to further improve our financial flexibility and strengthen the business.

Results of Operations

A summary of our results for the three months ended March 31, 2009 includes the following:

- Earnings per common share (EPS) remained flat at $0.18 per diluted common share compared to the first quarter of 2008.

- We reduced total debt by $19.3 million to $400.0 million as of March 31, 2009 from $419.3 million at December 31, 2008.

- We generated $26.0 million of cash from operating activities, compared to $24.6 million for the first quarter of 2008.

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(In thousands, except earnings per common share)	Three Months Ended March 31, 2009		Three Months Ended March 31, 2008	
Net sales	$ 177,104	100.0%	$ 247,222	100.0%
Cost of sales	95,243	53.8	139,141	56.3
Gross profit	81,861	46.2	108,081	43.7
Selling and marketing expenses	33,872	19.1	53,163	21.5
General, administrative and other expenses	22,108	12.5	25,585	10.3
Operating income	25,881	14.6	29,333	11.9
Interest expense, net	(4,571)	(2.6)	(7,691)	(3.1)
Other income (expense), net	348	0.2	(1,019)	(0.4)
Income before income taxes	21,658	12.2	20,623	8.4
Income tax provision	8,320	4.7	7,109	2.9
Net income	$ 13,338	7.5%	$ 13,514	5.5%
Earnings per common share:				
Basic	$ 0.18		$ 0.18	
Diluted	$ 0.18		$ 0.18	
Cash dividend per common share	$ —		$ 0.08	
Weighted average common shares outstanding:				
Basic	74,874		74,591	
Diluted	74,959		75,188	

Three Months Ended March 31, 2009 Compared with Three Months Ended March 31, 2008

We sell our premium mattresses and pillows through four distribution channels: Retail, Direct, Healthcare, and Third party. The Retail channel sells to furniture and bedding, specialty and department stores. The Direct channel sells directly to consumers. The Healthcare channel sells to hospitals, nursing homes, healthcare professionals and medical retailers. The Third party channel sells to distributors in countries where we do not operate our own wholly-owned subsidiaries. The following table sets forth Net sales information, by channel:

	CONSOLIDATED Three Months Ended March 31,		DOMESTIC Three Months Ended March 31,		INTERNATIONAL Three Months Ended March 31,	
(in thousands)	2009	2008	2009	2008	2009	2008
Retail	$ 150,522	$ 207,903	$ 93,411	$ 129,120	$ 57,111	$ 78,783
Direct	9,729	12,744	8,478	10,675	1,251	2,069
Healthcare	8,902	12,257	2,694	3,822	6,208	8,435
Third Party	7,951	14,318	1,851	4,301	6,100	10,017
	$ 177,104	$ 247,222	$ 106,434	$ 147,918	$ 70,670	$ 99,304

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A summary of Net sales by product is set forth below:

	CONSOLIDATED Three Months Ended March 31,		DOMESTIC Three Months Ended March 31,		INTERNATIONAL Three Months Ended March 31,	
(in thousands)	2009	2008	2009	2008	2009	2008
Net sales:						
Mattresses	$ 119,128	$ 168,050	$ 75,711	$ 106,872	$ 43,417	$ 61,178
Pillows	23,061	31,616	9,845	13,121	13,216	18,495
Other	34,915	47,556	20,878	27,925	14,037	19,631
	$ 177,104	$ 247,222	$ 106,434	$ 147,918	$ 70,670	$ 99,304

Net sales. Net sales for the three months ended March 31, 2009 decreased to $177.1 million from $247.2 million for the same period in 2008, a decrease of $70.1 million, or 28.4%, primarily driven by a decrease in volume for the comparable periods. Our industry continues to be affected by the macroeconomic environment, resulting in lower consumer traffic and decreased consumer demand. Consolidated Mattress sales decreased $48.9 million, or 29.1% compared to the first quarter of 2008. For the three months ended March 31, 2009, our Retail channel Net sales decreased to $150.5 million from $207.9 million for the same period in 2008, a decrease of $57.4 million, or 27.6%. Consolidated pillow sales decreased approximately $8.6 million, or 27.1%, from the first quarter of 2008. Consolidated Other, which includes adjustable bed bases, foundations and other related products, decreased $12.6 million, or 26.6%.

Domestic. Domestic Net sales for the three months ended March 31, 2009 decreased to $106.4 million from $147.9 million for the same period in 2008, a decrease of $41.5 million, or 28.0%. Our Domestic Retail channel contributed $93.4 million in Net sales for the three months ended March 31, 2009 for a decrease of $35.7 million, or 27.7%, for the same period in 2008. We believe that the macroeconomic environment and slower consumer traffic impacted our Domestic Retail channel during the first quarter. As a result, Domestic mattress sales in the first quarter of 2009 decreased $31.2 million, or 29.2%, over the same period in 2008. Pillow sales decreased $3.3 million, or 25.0%. Net sales in the Direct channel decreased by $2.2 million, or 20.6%. We believe that the macroeconomic environment also negatively impacted Net sales in the Direct channel. Our Healthcare channel Net sales decreased by $1.1 million, or 29.5%, which we believe is primarily related to the decreased availability of spending in the healthcare industry. Net sales in the Third Party channel decreased $2.5 million, or 57.0%, principally related to a deteriorating consumer environment in Canada.

International. International Net sales for the three months ended March 31, 2009 decreased to $70.7 million from $99.3 million for the same period in 2008, a decrease of $28.6 million, or 28.8%. On a constant currency basis, our International Net sales declined approximately 17.6%. Our International segment was primarily impacted by macroeconomic factors, as the global economic slowdown continues to impact our International segment. The International Retail channel decreased $21.7 million, or 27.5%, for the three months ended March 31, 2009. Our Direct and Third Party channels decreased 39.5% and 39.1%, respectively, also a reflection of the global economic slowdown. Healthcare channel Net sales decreased $2.2 million or 26.4%. International mattress sales in the first quarter of 2009 decreased $17.8 million, or 29.0%, over the first quarter of 2008. Pillow sales for the first quarter of 2009 decreased $5.3 million, or 28.5%, as compared to the first quarter of 2008.

Gross profit. Gross profit for the three months ended March 31, 2009 decreased to $81.9 million from $108.1 million for the same period in 2008, a decrease of $26.2 million, or 24.3%. The Gross profit margin for the three months ended March 31, 2009 was 46.2% as compared to 43.7% for the same period in 2008. The factors that impacted Gross profit margin during the quarter are identified and discussed below in the respective segment discussions. We currently have plans underway across our operations to expand margins for the remainder of 2009, including projects to improve utilization rates, a redesign of our transportation network and a range of sourcing opportunities to further improve the Gross profit margin.

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Domestic. Domestic Gross profit for the three months ended March 31, 2009 decreased to $42.8 million from $53.6 million for the same period in 2008, a decrease of $10.9 million, or 20.3%. The Gross profit margin in our Domestic segment was 40.2% and 36.3% for the three months ended March 31, 2009 and March 31, 2008, respectively. Improvements in our Domestic Gross profit margin were primarily driven by lower commodity pricing including raw material and transportation costs, our focus on driving manufacturing efficiencies and pricing actions taken early in 2009. These factors were partially offset by fixed cost de-leverage as production volumes were down substantially during the three months ended March 31, 2009 as compared to the same period in 2008. Domestic Cost of sales for the three months ended March 31, 2009 decreased to $63.6 million from $94.3 million for the same period in 2008, a decrease of $30.6 million, or 32.5%.

International. International Gross profit for the three months ended March 31, 2009 decreased to $39.1 million from $54.5 million for the same period in 2008, a decrease of $15.4 million, or 28.2%. The Gross profit margin in our International segment was 55.3% and 54.8% for the three months ended March 31, 2009 and March 31, 2008, respectively. Improvements in our International Gross profit margin were primarily driven by lower commodity pricing including raw material costs, our focus on driving manufacturing efficiencies and pricing actions taken early in 2009. These factors were partially offset by fixed cost de-leverage as production volumes were down substantially during the three months ended March 31, 2009 as compared to the same period in 2008. Our International Cost of sales for the three months ended March 31, 2009 decreased to $31.6 million from $44.9 million for the same period in 2008, a decrease of $13.3 million, or 29.6%.

Selling and marketing expenses. Selling and marketing expenses include advertising and media production associated with our Direct channel, other marketing materials such as catalogs, brochures, videos, product samples, direct customer mailings and point of purchase materials and sales force compensation. We also include in Selling and marketing expenses certain new product development costs, including market research and testing for new products. In the first quarter of 2009, Selling and marketing expenses decreased to $33.9 million for the three months ended March 31, 2009 as compared to $53.1 million for the three months ended March 31, 2008. Selling and marketing expenses as a percentage of Net sales were 19.1% and 21.5% for the three months ended March 31, 2009 and March 31, 2008, respectively. Our objective is to align advertising costs to reflect our sales expectations. However, in the first quarter of 2008, much of our cost structure was in place, which limited our ability to take actions to reduce costs to reflect our reduced sales levels. During the last three quarters of 2008 and the first quarter of 2009, we have taken actions to better align our advertising spend with our sales expectations. In addition, we have implemented initiatives to reduce costs in other selling activities.

General, administrative and other expenses. General, administrative and other expenses include management salaries, information technology, professional fees, depreciation of furniture and fixtures, leasehold improvements and computer equipment, expenses for administrative functions and research and development costs. General, administrative and other expenses decreased to $22.1 million for the three months ended March 31, 2009 as compared to $25.7 million for the three months ended March 31, 2008, a decrease of $3.5 million, or 13.6%. General, administrative and other expenses as a percentage of Net sales was 12.5% and 10.3% for the three months ended March 31, 2009 and March 31, 2008, respectively. The increase in general, administrative and other expenses as a percentage of Net sales in the first quarter of 2009 as compared to the first quarter of 2008 is primarily related to increased bad debt expense and fixed costs associated with depreciation and stock-based compensation.

Interest expense, net. Interest expense, net, includes the interest costs associated with our borrowings and the amortization of deferred financing costs related to those borrowings. Interest expense, net, decreased to $4.6 million for the three months ended March 31, 2009, as compared to $7.7 million for the three months ended March 31, 2008, a decrease of $3.1 million, or 40.6%. The decrease in interest expense is primarily attributable to the decrease in our total Long-term debt levels partially offset by an increase in our interest rates.

Income tax provision. Income tax provision includes income taxes associated with taxes currently payable and deferred taxes, and it includes the impact of net operating losses for certain of our domestic and foreign operations.

Our effective tax rate for the three months ended March 31, 2009 was 38.4%. For the same period in 2008, the effective tax rate was 34.5%. Our effective income tax rates for the three months ended March 31, 2009 and for the three months ended March 31, 2008 differed from the federal statutory rate principally because of certain foreign tax rate differentials, state and local income taxes, the tax charge on a previously recognized foreign tax benefit, foreign income currently taxable in the U.S., the production activities deduction and certain other permanent differences.

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On October 24, 2007, we received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years. The tax assessment relates to the royalty paid by one of Tempur-Pedic International's U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is approximately $39.3 million including interest and penalties. On January 23, 2008 we filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral Advance Pricing Agreement (Bilateral APA) between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the IRS and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008 we filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and issued their initial questions on April 9, 2009. We believe we have meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary. It is reasonably possible under FIN 48 that the amount of the total unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

Liquidity and Capital Resources

Liquidity

Our principal sources of funds are cash flows from operations and borrowings. Our principal uses of funds consist of payments of principal and interest on our debt facilities, capital expenditures, payments of dividends and share repurchases from time to time pursuant to a share repurchase program. At March 31, 2009, we had working capital of $84.8 million including Cash and cash equivalents of $21.1 million. This was relatively flat compared to working capital of $82.4 million including $15.4 million in Cash and cash equivalents as of December 31, 2008. The increase in Cash and cash equivalents was primarily related to the timing of certain payments made at the end of the first quarter of 2009. During 2008 and the first quarter of 2009, there were no repurchases of our common stock.

Our cash flow from operations increased to $26.0 million for the three months ended March 31, 2009 as compared to $24.6 million for the three months ended March 31, 2008. During 2009, we plan to maintain our focus on driving working capital improvements to maximize operating cash flow and increase our financial flexibility. The increase in operating cash flow for the first quarter of 2009 compared to the first quarter of 2008 was primarily the result of cash flows generated by changes in operating assets and liabilities, the effects of which were offset by changes in deferred income taxes. During the first quarter of 2009, we continued to increase our working capital levels by reducing accounts receivables and inventory levels and managing vendor payment terms.

Net cash used in investing activities decreased to $1.6 million for the three months ended March 31, 2009 as compared to $4.4 million for the three months ended March 31, 2008, a decrease of $2.8 million. The decrease is primarily related to reduction for capital expenditures in 2009. During the quarter ended March 31, 2008 we acquired our former third party distributor in New Zealand, whereas no acquisitions occurred in 2009.

Cash flow used by financing activities was $18.2 million for the three months ended March 31, 2009 as compared to $10.2 million for the three months ended March 31, 2008, representing an increase in cash flow used of $8.0 million. The increase is primarily related to our continued focus to reduce our level of outstanding debt. In the first quarter of 2009, we completed our repatriation of foreign earnings which was initiated during the fourth quarter of 2008 and used a portion of the proceeds to reduce our level of outstanding debt. Additionally, in the fourth quarter of 2008, we suspended our quarterly dividend payment in order to redirect the use of these funds to pay down outstanding debt.

Capital Expenditures

Capital expenditures totaled $1.4 million for the three months ended March 31, 2009 and $2.8 million for the three months ended March 31, 2008. We currently expect our 2009 capital expenditures to be in line with 2008, ranging from $10 to $12 million.

Debt Service

Our long-term debt decreased to $400.0 million as of March 31, 2009 from $419.3 million as of December 31, 2008. After giving effect to $400.0 million in borrowings under the 2005 Senior Credit Facility and letters of credit outstanding, total availability under the Revolvers was $234.4 million as of March 31, 2009. In the first quarter of 2009, we completed our repatriation of foreign earnings which was initiated during the fourth quarter of 2008. This repatriation program has enabled us to reduce our overall level of outstanding debt.

The interest rate and certain fees that we pay in connection with the 2005 Senior Credit Facility are subject to periodic adjustment based on changes in our consolidated leverage ratio. In May 2008, we entered into an interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR-based interest rate to 3.755% on $300.0 million of the outstanding balance as of March 31, 2009 under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap declines as follows: to $300.0 million on November 28, 2008 (through November, 2009); to $200.0 million on November 28, 2009 (through November, 2010) and to $100.0 million on November 28, 2010 (through November 28, 2011).

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Stockholders' Equity

Share Repurchase Program—On October 16, 2007, our Board of Directors authorized a share repurchase authorization of up to $300.0 million of our common stock. Under the existing share repurchase authorization, we have $280.1 million available for repurchase as of March 31, 2009. No shares were repurchased during the year ended December 31, 2008 and first quarter of 2009. Share repurchases under this authorization may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts as we deem appropriate. This share repurchase authorization may be suspended, limited or terminated at any time without notice.

Dividend Program—Our Board of Directors declared dividends in the first three quarter of 2008 of $0.08 per common share. On October 16, 2008, we announced that we would suspend the payment of the quarterly cash dividend and redirect the use of those funds to reduce debt. The decision to pay a dividend is reviewed quarterly and requires declaration by our Board of Directors.

Factors That May Affect Future Performance

General Business and Economic Conditions—Our business has been affected by general business and economic conditions, and these conditions could have an impact on future demand for our products. The U.S. macroeconomic environment continues to be challenging and was the primary factor in a slowdown in the mattress industry. In addition, our International segment experienced further weakening as a result of certain consumer trends in several European and Asian markets. We expect the economic environment in the U.S., Europe and Asia to continue to be challenging.

Maintaining financial flexibility is our primary short-term focus. In light of the macroeconomic environment, we took steps to further align our cost structure with our anticipated level of Net sales. During the first quarter of 2009 we have continued to increase our financial flexibility by reducing our inventory, improving collections, lowering expenses and paying down debt. During the remainder of 2009, we expect to continue to pursue certain key strategies including: maintaining focus on premium mattresses and pillows and regularly introducing new products; investing in increasing our global brand awareness; extending our presence and improving our Retail account productivity; investing in our operating infrastructure to meet the requirements of our business; and taking actions to further improve our financial flexibility and strengthen our business.

Managing Growth—We have grown rapidly, with our Net sales increasing from $221.5 million in 2001 to $1,106.7 million in 2007 and our Net sales were $927.8 million for the year ended December 31, 2008. For the quarter ended March 31, 2009, our net sales were $177.1 million. In the past, our growth has placed, and may continue to place, a strain on our management, production, product distribution network, information systems and other resources. In response to these challenges, management has continued to enhance operating and financial infrastructure. These expenditures, as well as expenditures for advertising and other marketing-related activities are made as the continued growth in the business allows us the ability to invest. However, these expenditures may be limited by lower than planned sales or an inflationary cost environment.

Gross Margins—Our gross margin is primarily impacted by the cost of raw materials, operational efficiency, product and channel mix and volume incentives offered to certain retail accounts. Future increases in raw material prices could have a negative impact on our gross margin if we do not raise prices to cover increased cost. Our gross margin can also be impacted by our operational efficiencies, including the particular levels of utilization at our three manufacturing facilities. Our margins are also impacted by the growth in our Retail channel as sales in our Retail channel are at wholesale prices whereas sales in our Direct channel are at retail prices. Additionally, our overall product mix has shifted to mattresses and other products over the last several years, which has impacted our gross margins because mattresses generally carry lower margins than pillows and are sold with lower margin products such as foundations and bed frames.

Competition—Participants in the mattress and pillow industries compete primarily on price, quality, brand name recognition, product availability and product performance. We compete with a number of different types of mattress alternatives, including standard innerspring mattresses, other foam mattresses, waterbeds, futons, air beds and other air-supported mattresses. These alternative products are sold through a variety of channels, including furniture and bedding stores, specialty bedding stores, department stores, mass merchants, wholesale clubs, telemarketing programs, television infomercials and catalogs.

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Our largest competitors have significant financial, marketing and manufacturing resources and strong brand name recognition, and sell their products through broad and well established distribution channels. Additionally, we believe that a number of our significant competitors offer mattress products claimed to be similar to our TEMPUR® mattresses and pillows. We provide strong channel profits to our retailers and distributors which management believes will continue to provide an attractive business model for our retailers and discourage them from carrying competing lower-priced products.

Significant Growth Opportunities—We believe there are significant opportunities to take market share from the innerspring mattress industry as well as other sleep surfaces. Our market share of the overall mattress industry is relatively small in terms of both dollars and units, which we believe provides us with a significant opportunity for growth. By broadening our brand awareness and offering superior sleep surfaces, we believe consumers will over time adopt our products at an increasing rate, which should expand our market share. However, our business may be affected by general business and economic conditions that could have an impact on demand for our products. In addition, by expanding distribution within our existing accounts, we believe we have the opportunity to grow our business. By extending our product line, we should be able to continue to expand the number of Tempur-Pedic models offered at the retail store level, which should lead to increased sales. Based on this strategy we believe a focus on expanding distribution within our existing accounts provides for continued growth opportunities and market share gains. Our products are currently sold in approximately 6,700 furniture and bedding retail stores in the U.S., out of a total of approximately 10,000 stores we have identified as appropriate targets. Within this addressable market, our plan is to increase our total penetration to a total of 7,000 to 8,000 over time. Our products are also sold in approximately 5,100 furniture retail and department stores outside the U.S., out of a total of approximately 7,000 stores that we have identified as appropriate targets. We are continuing to develop products that are responsive to consumer demand in our markets internationally.

Financial Leverage—As of March 31, 2009, we had $400.0 million of total Long-term debt outstanding, and our Stockholders' Equity was $84.3 million. Higher financial leverage makes us more vulnerable to general adverse competitive, economic and industry conditions. Our recent repatriation of foreign earnings, suspending our quarterly cash dividend, and modest debt rebalancing between our Domestic and International segments, together with productivity improvements and cost containment initiatives should enable us to decrease our financial leverage and increase our financial flexibility. There can be no assurance, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under our 2005 Senior Credit Facility.

Exchange Rates—As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position could fluctuate materially as a result of foreign exchange movements. Should currency rates change sharply, our results could be negatively impacted.

We use foreign exchange forward contracts to manage a portion of the exposure to the risk related to intercompany debt and interest payments. These hedging transactions may not succeed in effectively managing our foreign currency exchange rate risk related to these transactions. See "ITEM 3. Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Exposures" under Part I of this report.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and estimates, see "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2008. There have been no material changes to our critical accounting policies and estimates in 2009.

Impact of Recently Issued Accounting Pronouncements

See Note 2 in the Notes to Condensed Consolidated Financial Statements in ITEM 1 under Part I of this report for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exposures

As a multinational company, we conduct our business in a wide variety of currencies and are therefore subject to market risk for changes in foreign exchange rates. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. We do not enter into hedging transactions to hedge this risk. Consequently, our reported earnings and financial position could fluctuate materially as a result of foreign exchange movements. Should currency rates change sharply, our results could be negatively impacted.

We use foreign exchange forward contracts to manage a portion of the exposure to the risk related to intercompany debt and interest payments. These hedging transactions may not succeed in effectively managing our foreign currency exchange rate risk related to these transactions. A sensitivity analysis indicates the potential loss in fair value on foreign currency forward contracts outstanding as of March 31, 2009, would be approximately $5.7 million if an adverse 10% change in foreign currencies subject to these contracts occurred. Such losses would be largely offset by gains from the revaluation or settlement of the underlying assets and liabilities that are being protected by the foreign currency forward contracts.

We do not apply hedge accounting to the foreign currency forward contracts used to offset currency-related changes in the fair value of foreign currency denominated assets and liabilities. These contracts are marked-to-market through earnings at the same time that the exposed assets and liabilities are remeasured through earnings.

Interest Rate Risk

We are exposed to changes in interest rates. Our 2005 Senior Credit Facility has a variable rate. In May 2008, we entered into a three year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. Under this swap, we pay at a fixed rate and receive payments at a variable rate. The swap effectively fixes the floating LIBOR-based interest rate to 3.755% on $350.0 million of the outstanding balance under the 2005 Senior Credit Facility, with the outstanding balance subject to the swap declining over time. The amount of the outstanding balance subject to the swap declines as follows: to $300.0 million on November 28, 2008 (through November, 2009); to $200.0 million on November 28, 2009 (through November, 2010) and to $100.0 million on November 28, 2010 (through November 28, 2011).

Interest rate changes generally do not affect the market value of such debt, but do impact the amount of our interest payments and therefore, our future earnings and cash flows, assuming other factors are held constant. On March 31, 2009, we had variable-rate debt of approximately $100.0 million. Holding other variables constant, including levels of indebtedness, a one hundred basis point increase in interest rates on our variable-rate debt would cause an estimated reduction in income before income taxes for the next year of approximately $1.0 million.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (Exchange Act)as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2009 and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various other legal proceedings incidental to the operations of its business. We believe that the outcome of all such pending legal proceedings in the aggregate will not have a materially adverse affect on our business, financial condition, liquidity, or operating results.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed under the heading, “Risk Factors” in Item IA of Part I of our annual report on Form 10-K for the year ended December 31, 2008, some of which are updated below. These risks are not the only ones facing the Company. Please also see “Special Note Regarding Forward-Looking Statements” on page 3.

We are subject to a pending tax proceeding in Denmark, and an adverse decision would reduce our liquidity and profitability.

On October 24, 2007, we received an income tax assessment from the Danish Tax Authority with respect to the 2001, 2002 and 2003 tax years. The tax assessment relates to the royalty paid by one of Tempur-Pedic International’s U.S. subsidiaries to a Danish subsidiary and the position taken by the Danish Tax Authority could apply to subsequent years. The total tax assessment is $39.3 million including interest and underpayment penalties. On January 23, 2008 we filed timely complaints with the Danish National Tax Tribunal denying the tax assessments. The National Tax Tribunal formally agreed to place the Danish tax litigation on hold pending the outcome of a Bilateral APA between the United States and the Danish Tax Authority. A Bilateral APA involves an agreement between the IRS and the taxpayer, as well as a negotiated agreement with one or more foreign competent authorities under applicable income tax treaties. On August 8, 2008, we filed the Bilateral APA with the IRS and the Danish Tax Authority. The IRS began analyzing the Bilateral APA in the first quarter of 2009 and issued their initial questions on April 9, 2009. We believe we have meritorious defenses to the proposed adjustment and will oppose the assessment in the Danish courts, as necessary. It is reasonably possible under FIN 48 that the amount of the total unrecognized tax benefits may change in the next twelve months. An estimate of the amount of such change cannot be made at this time.

Allegations of resale price maintenance by the Company could adversely affect our operations.

Our retail pricing and advertising policies may be challenged under antitrust laws in the U.S. and abroad. In addition, the State of Maryland recently adopted legislation purporting to prohibit manufacturers from entering into contracts, combinations or conspiracies with retailers to charge minimum resale prices for their goods, and other states and Congress may adopt similar legislation. If antitrust regulators in any jurisdiction in which we do business initiate investigations into or challenge our pricing or advertising policies, our efforts to respond could force us to divert management resources and we could incur significant unanticipated costs. If such an investigation were to result in a charge that our practices or policies were in violation of applicable antitrust or other laws or regulations, we could be subject to significant additional costs of defending such charges in a variety of venues and, ultimately, if there were a finding that we were in violation of antitrust or other laws or regulations, there could be an imposition of fines, damages for persons injured, as well as injunctive or other relief. Any requirement that we pay fines or damages could decrease our liquidity and profitability, and any investigation that requires significant management attention or causes us to change our business practices could disrupt our operations, also resulting in a decrease in our liquidity and profitability. An antitrust class action suit against us could result in potential liabilities, substantial costs and the diversion of our management’s attention and resources, regardless of the outcome. See ITEM 3, “Legal Proceedings” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008.

Our current executive officers, directors and their affiliates own a large percentage of our common stock and could limit you from influencing corporate decisions.

As of April 27, 2009, our executive officers, directors, and their respective affiliates own, in the aggregate, approximately 11% of our outstanding common stock on a fully diluted basis, after giving effect to the vesting of all unvested options. These stockholders, as a group, are able to influence all matters requiring approval by our stockholders, including mergers, sales of assets, the election of all directors, and approval of other significant corporate transactions, in a manner with which you may not agree or that may not be in your best interest. In addition, we have several stockholders who presently own more than 5% of our outstanding common stock, and as a result, may be able to influence all matters requiring the approval of other significant corporate transactions.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Not applicable

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

ITEM 6. EXHIBITS

The following is an index of the exhibits included in this report:

10.1	Form of Stock Option Agreement under the United Kingdom Approved Share Option Sub Plan to the 2003 Equity Incentive Plan.
10.2	Annual Incentive Bonus Plan for Senior Executives. (1)
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from the Registrant’s Current Report on Form 8-K filed with the Commission on February 19, 2009

* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78r), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TEMPUR-PEDIC INTERNATIONAL INC. (Registrant)	
Date: April 30, 2009	By:	/s/ DALE E. WILLIAMS
		Dale E. Williams Executive Vice President, Chief Financial Officer, and Secretary

align="left" nowrap valign="bottom" width="1%">
United States

127,422 214,135 377,790 648,431

Mexico

6,653 10,013 23,005 24,445

Total other products

134,075 224,148 400,795 672,876 $1,776,813 $2,207,476 $5,351,906 $6,355,623

Operating income (loss):

Chicken:

United States

$72,976 $(65,425) $(94,731) $(241,081)

Mexico

18,046 6,964 21,900 (848)

Total chicken

91,022 (58,461) (72,831) (241,929)

Other products:

United States

16,487 18,366 20,661 74,601

Mexico

1,087 1,015 4,819 2,980

Total other products

17,574 19,381 25,480 77,581

Asset impairment

— — — (12,022)

Restructuring items, net

— (3,451) (1,987) (9,120) $108,596 $(42,531) $(49,338) $(185,490)

Depreciation and amortization(a)(b)(c)

Chicken:

United States

$51,245 $54,292 $159,203 $158,624

Mexico

2,383 2,587 7,207 7,831

Total chicken

53,628 56,879 166,410 166,455

Other products:

United States

3,475 3,565 11,251 9,465

Mexico

58 62 171 187

Total other products

3,533 3,627 11,422 9,652 $57,161 $60,506 $177,832 $176,107

40

(a) Includes amortization of capitalized financing costs of $1.8 million, $1.7 million, $5.1 million and $3.8 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.

(b) Includes amortization of intangible assets of $2.5 million, $2.5 million, $7.6 million and $7.7 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.

(c) Excludes depreciation costs incurred by our discontinued turkey business of $0.7 million during the nine months ended June 28, 2008. Our discontinued turkey business did not incur depreciation costs during the third quarter of 2009, the third quarter of 2008 or the first nine months of 2009.

NOTE S—INSURANCE PROCEEDS

On July 21, 2008, a fire in the Mt. Pleasant, Texas protein conversion plant damaged a significant portion of the plant’s building, machinery and equipment. During the third quarter of 2009, the Company received $15.0 million of proceeds that it recognized in cost of sales for insurance recovery related to business interruption costs.

NOTE T—SUBSEQUENT EVENT

On July 24, 2009, the Company announced plans to idle its processing plant in Athens, Alabama and one of its two processing plants in Athens, Georgia within 60-75 days as part of its continuing effort to improve capacity utilization and reduce costs. Approximately 640 employees currently employed at the Athens, Alabama processing plant will be affected by this restructuring action. The Company expects to be able to offer positions at other facilities to many of these employees. The Company also expects to be able to offer positions to most of the approximately 330 employees at the Athens, Georgia processing plant by the time that plant is idled. The Company does not expect to significantly reduce the number of contract growers with which it conducts business in either Athens, Alabama or Athens, Georgia as a direct result of these restructuring actions. Most growers will be transitioned to supplying other processing complexes. Since production from these two plants will be consolidated into other processing complexes, these restructuring actions should not result in any decrease in the Company’s overall production or in any change in product mix.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of the Company

Pilgrim's Pride Corporation (referred to herein as "Pilgrim's Pride," "the Company," "we," "us," "our," or similar terms) is the largest chicken companies in the United States ("US"), Mexico and Puerto Rico. Our fresh chicken retail line is sold in the southeastern, central, southwestern and western regions of the US, throughout Puerto Rico, and in the northern and central regions of Mexico. Our prepared chicken products meet the needs of some of the largest customers in the food service industry across the US. Additionally, the Company exports commodity chicken products to 80 countries. As a vertically integrated company, we control every phase of the production of our products. We operate feed mills, hatcheries, processing plants and distribution centers in 14 US states, Puerto Rico and Mexico. Pilgrim's Pride operates in two business segments—Chicken and Other Products.

Our fresh chicken products consist of refrigerated (non-frozen) whole or cut-up chicken, either pre-marinated or non-marinated, and pre-packaged chicken in various combinations of freshly refrigerated, whole chickens and chicken parts. Our prepared chicken products include portion-controlled breast fillets, tenderloins and strips, delicatessen products, salads, formed nuggets and patties and bone-in chicken parts. These products are sold either refrigerated or frozen and may be fully cooked, partially cooked or raw. In addition, these products are breaded or non-breaded and either pre-marinated or non-marinated.

We operate on the basis of a 52/53-week fiscal year that ends on the Saturday closest to September 30. The reader should assume any reference we make to a particular year (for example, 2009) in this report applies to our fiscal year and not the calendar year.

Executive Summary

The Company experienced an improved business environment in the third quarter of 2009. We reported net income of $53.2 million, or $0.72 per common share, for the quarter, which included gross profit of $183.4 million. For the nine months ended June 27, 2009, we experienced a net loss of $234.3 million, or $3.16 per common share, which included gross profit of $198.3 million. As of June 27, 2009, the Company's accumulated deficit aggregated $551.6 million. During the first nine months of 2009, the Company used $53.0 million of cash in operations. At June 27, 2009, we had cash and cash equivalents totaling $101.2 million. In addition, the Company incurred reorganization costs of $16.8 million in the third quarter of 2009 and $65.4 million in the first nine months of 2009. These costs included (i) severance and other costs related to post-petition facility closures and reduction-in-force ("RIF") actions, (ii) financing fees associated with the Amended and Restated Post-Petition Credit Agreement dated December 31, 2008, as amended (the "DIP Credit Agreement"), among the Company, as borrower, the Subsidiaries, as guarantors, Bank of Montreal, as agent (the "DIP Agent"), and the lenders party thereto, (iii) professional fees charged for post-petition reorganization services and (iv) a loss recognized on the sale of the Company's interest in a hog farming joint venture, (v) asset impairment costs related to a closed processing complex in Dalton, Georgia, and (vi) fees related to the termination of the Company's Amended and Restated Receivables Purchase Agreement dated September 26, 2008, as amended (the "RPA").

These costs were partially offset by a gain recognized on the sale of the Company’s closed processing complex in Farmerville, Louisiana.

Market prices for feed ingredients decreased in the first nine months of 2009 after reaching unprecedented levels in the last half of 2008. Market prices for feed ingredients remain volatile, however, and there can be no assurance that they will not increase materially. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any hedging arrangements or other derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes. However, on July 15, 2009, the Company entered into a Third Amendment (the "Amendment") to the DIP Credit Agreement. Subject to the approval of the Bankruptcy Court, the Amendment allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than $100 million in margin requirements with respect to all such non-customer hedging contracts.

The following table compares the highest and lowest prices reached on nearby futures for one bushel of corn and one ton of soybean meal during the current year and previous four years:

	Corn		Soybean Meal	
	Highest Price	Lowest Price	Highest Price	Lowest Price
2009:				
Third Quarter	$ 4.50	$ 3.40	$ 433.40	$ 278.00
Second Quarter	4.28	3.38	326.00	264.80
First Quarter	5.24	2.90	302.00	237.00
2008:				
Fourth Quarter	7.50	4.86	455.50	312.00
Third Quarter	7.63	5.58	427.90	302.50
Second Quarter	5.70	4.49	384.50	302.00
First Quarter	4.57	3.35	341.50	254.10
2007	4.37	2.62	286.50	160.20
2006	2.68	1.86	204.50	155.80
2005	2.63	1.91	238.00	146.60

Market prices for chicken products have stabilized since the end of 2008 but remain below levels sufficient to offset the generally higher costs of feed ingredients. Many producers within the industry, including Pilgrim's Pride, cut production in 2008 and 2009 in an effort to correct the general oversupply of chicken in the US. Until recently, these production cuts had a positive effect on prices for chicken products. Despite these production cuts, there can be no assurance that chicken prices will not decrease due to such factors as weakening demand for breast meat from food service providers and lower prices for chicken leg quarters in the export market as a result of weakness in world economies and restrictive credit markets.

We continue to review and evaluate various restructuring and other alternatives to streamline our operations, improve efficiencies and reduce costs. Such initiatives may include selling assets, idling facilities, consolidating operations and functions, relocating or reducing production and voluntary and involuntary employee separation programs. Any such actions may require us to obtain the pre-approval of our lenders under our DIP Credit Agreement and the Bankruptcy Court. In addition, such actions will subject the Company to additional short-term costs, which may include facility shutdown costs, asset impairment charges, lease commitment costs, employee retention and severance costs and other closing costs. Certain of these restructuring activities will result in reduced capacities and sales volumes and may have a disproportionate impact on our income relative to the cost savings.

Chapter 11 Bankruptcy Filings

On December 1, 2008 (the "Petition Date"), Pilgrim's Pride Corporation and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division (the "Bankruptcy Court"). The cases are being jointly administered under Case No. 08-45664. The Company's operations in Mexico and certain operations in the US were not included in the filing (the "Non-filing Subsidiaries") and will continue to operate outside of the Chapter 11 process.

Effective December 1, 2008, the New York Stock Exchange delisted our common stock as a result of the Company's filing of its Chapter 11 petitions. Our common stock is now quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol "PGPDQ.PK."

The filing of the Chapter 11 petitions constituted an event of default under certain of our debt obligations, and those debt obligations became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result, the accompanying Consolidated Balance Sheet as of September 27, 2008 includes reclassifications of $1,872.1 million to reflect as current certain long-term debt under the Company's credit facilities that, absent the stay, would have become automatically and immediately due and payable. Because of the bankruptcy petition, most of the Company's pre-petition long-term debt is included in liabilities subject to compromise at June 27, 2009. The Company classifies pre-petition liabilities subject to compromise as a long-term liability because management does not believe the Company will use existing current assets or create additional current liabilities to fund these obligations.

Chapter 11 Process

The Debtors are currently operating as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors-in-possession, we are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and certain of its subsidiaries consisting of PPC Transportation Company, PFS Distribution Company, PPC Marketing, Ltd., and Pilgrim's Pride Corporation of West Virginia, Inc. (collectively, the "US Subsidiaries"), and To-Ricos, Ltd. and To-Ricos Distribution, Ltd. (collectively with the US Subsidiaries, the "Subsidiaries") to enter into a Post-Petition Credit Agreement (the "Initial DIP Credit Agreement") among the Company, as borrower, the US Subsidiaries, as guarantors, Bank of Montreal, as agent, and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement.

The DIP Credit Agreement provides for an aggregate commitment of up to $450 million, which permits borrowings on a revolving basis. The commitment includes a $25 million sub-limit for swingline loans and a $20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see "Liquidity and Capital Resources."

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of $150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges, certain closure costs and other specified costs, charges, losses and gains.

The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both $348.6 million as there were no outstanding borrowings under the Credit Agreement.

The principal amount of outstanding loans under the DIP Credit Agreement, together with accrued and unpaid interest thereon, are payable in full at maturity on December 1, 2009, subject to extension for an additional six months with the approval of all lenders thereunder. All obligations under the DIP Credit Agreement are unconditionally guaranteed by the Subsidiaries and are secured by a first priority priming lien on substantially all of the assets of the Company and the Subsidiaries, subject to specified permitted liens in the DIP Credit Agreement.

The DIP Credit Agreement allows the Company to provide additional advances to the Non-filing Subsidiaries of up to approximately $25 million. Management believes that all of the Non-filing Subsidiaries, including the Company's Mexican subsidiaries, will be able to operate within this limitation.

On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from $450 million to $350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than $100 million in margin requirements with respect to all such non-customer hedging contracts.

For additional information on the DIP Credit Agreement, see "Liquidity and Capital Resources."

The Bankruptcy Court has approved payment of certain of the Debtors' pre-petition obligations, including, among other things, employee wages, salaries and benefits, and the Bankruptcy Court has approved the Company's payment of vendors and other providers in the ordinary course for goods and services ordered pre-petition but received from and after the Petition Date and other business-related payments necessary to maintain the operation of our businesses. The Debtors have retained, subject to Bankruptcy Court approval, legal and financial professionals to advise the Debtors on the bankruptcy proceedings and certain other "ordinary course" professionals. From time to time, the Debtors may seek Bankruptcy Court approval for the retention of additional professionals.

Shortly after the Petition Date, the Debtors began notifying all known current or potential creditors of the Chapter 11 filing. Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

As required by the Bankruptcy Code, the United States Trustee for the Northern District of Texas (the "US Trustee") appointed an official committee of unsecured creditors (the "Creditors' Committee"). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtors. In addition, on April 30, 2009, the Bankruptcy Court ordered the US Trustee to appoint an official committee of equity holders (the "Equity Committee") to represent the interests of Pilgrim's Pride's equity holders in the Debtors' bankruptcy cases. There can be no assurance that the Creditors' Committee or the Equity Committee will support the Debtors' positions on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization, once proposed. Disagreements between the Debtors and the Creditors' Committee or the Equity Committee could protract the Chapter 11 proceedings, negatively impact the Debtors' ability to operate and delay the Debtors' emergence from the Chapter 11 proceedings.

Under Section 365 and other relevant sections of the Bankruptcy Code, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property and equipment, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this report, including where applicable our express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights we have under Section 365 of the Bankruptcy Code.

In order to successfully exit Chapter 11, the Debtors will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve the Debtors' pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to exit from bankruptcy.

On March 26, 2009, the Bankruptcy Court issued an order extending the period during which the Debtors have the exclusive right to file a plan of reorganization. Pursuant to this order, the Debtors have the exclusive right, through September 30, 2009, to file a plan for reorganization, and if we file a plan by that date, we will have until November 30, 2009 to obtain the necessary acceptances of our plan. We may file one or more motions to request further extensions of these time periods. If the Debtors' exclusivity period lapses, any party in interest would be able to file a plan of reorganization for any of the Debtors. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Chapter 11 proceedings. There can be no assurance at this time that a plan of reorganization will be confirmed by the Bankruptcy Court or that any such plan will be implemented successfully.

We have incurred and will continue to incur significant costs associated with our reorganization. The amount of these costs, which are being expensed as incurred commencing in November 2008, are expected to significantly affect our results of operations.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must generally be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, the value of our liabilities and securities, including our common stock, is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of the liabilities and/or securities of the Debtors. At this time there is no assurance we will be able to restructure as a going concern or successfully propose or implement a plan of reorganization.

On February 11, 2009, the Bankruptcy Court issued an order granting the Company's motion to impose certain restrictions on trading in shares of the Company's common stock in order to preserve valuable tax attributes. This order established notification procedures and certain restrictions on transfers of common stock or options to purchase the common stock of the Company. The trading restrictions apply retroactively to January 17, 2009, the date the motion was filed, to investors beneficially owning at least 4.75% of the outstanding shares of common stock of the Company. For these purposes, beneficial ownership of stock is determined in accordance with special US tax rules that, among other things, apply constructive ownership concepts and treat holders acting together as a single holder. In addition, in the future, the Company may request that the Bankruptcy Court impose certain trading restrictions on certain debt of, and claims against, the Company.

Going Concern Matters

The accompanying Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern. However, there is substantial doubt about the Company’s ability to continue as a going concern based on the factors previously discussed. The Consolidated Financial Statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon, among other things, the ability of the Company to return to historic levels of profitability and, in the near term, restructure its obligations in a manner that allows it to obtain confirmation of a plan of reorganization by the Bankruptcy Court.

Management is addressing the Company’s ability to return to profitability by conducting profitability reviews at certain facilities in an effort to reduce inefficiencies and manufacturing costs. During the first nine months of 2009, the Company closed seven processing complexes, closed two distribution centers and reduced or consolidated production at various other facilities throughout the US. These actions will ultimately result in a reduction of approximately 6,390 production positions and 440 non-production positions.

On November 7, 2008, the Board of Directors appointed a Chief Restructuring Officer (“CRO”) for the Company. The appointment of a CRO was a requirement included in the waivers received from the Company’s lenders on October 27, 2008. The CRO assists the Company with cost reduction initiatives, restructuring plans development and long-term liquidity improvement. The CRO reports to the Board of Directors of the Company.

In order to emerge from bankruptcy, the Company will need to obtain alternative financing to replace the DIP Credit Agreement and to satisfy the secured claims of its pre-bankruptcy creditors.

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Business Segments

Subsequent to the sale of our turkey operations, we operate in two reportable business segments as (1) a producer and seller of chicken products and (2) a seller of other products. The following table presents certain information regarding our segments:

	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
	(In thousands)			
Net sales to customers:				
Chicken:				
United States	$ 1,516,468	$ 1,829,163	$ 4,579,725	$ 5,280,272
Mexico	126,270	154,165	371,386	402,475
Total chicken	1,642,738	1,983,328	4,951,111	5,682,747
Other Products:				
United States	127,422	214,135	377,790	648,431
Mexico	6,653	10,013	23,005	24,445
Total other products	134,075	224,148	400,795	672,876
	$ 1,776,813	$ 2,207,476	$ 5,351,906	$ 6,355,623
Operating income (loss):				
Chicken:				
United States	$ 72,976	$ (65,425)	$ (94,731)	$ (241,081)
Mexico	18,046	6,964	21,900	(848)
Total chicken	91,022	(58,461)	(72,831)	(241,929)
Other products:				
United States	16,487	18,366	20,661	74,601
Mexico	1,087	1,015	4,819	2,980
Total other products	17,574	19,381	25,480	77,581
Asset impairment	—	—	—	(12,022)
Restructuring items, net	—	(3,451)	(1,987)	(9,120)
	$ 108,596	$ (42,531)	$ (49,338)	$ (185,490)
Depreciation and amortization(a)(b)(c)				
Chicken:				
United States	$ 51,245	$ 54,292	$ 159,203	$ 158,624
Mexico	2,383	2,587	7,207	7,831
Total chicken	53,628	56,879	166,410	166,455

Other products:								
United States		3,475		3,565		11,251		9,465
Mexico		58		62		171		187
Total other products		3,533		3,627		11,422		9,652
	$	57,161	$	60,506	$	177,832	$	176,107

(a) Includes amortization of capitalized financing costs of $1.8 million, $1.7 million, $5.1 million and $3.8 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.

(b) Includes amortization of intangible assets of $2.5 million, $2.5 million, $7.6 million and $7.7 million recognized in the third quarter of 2009, the third quarter of 2008, the first nine months of 2009 and the first nine months of 2008, respectively.

(c) Excludes depreciation costs incurred by our discontinued turkey business of $0.7 million during the nine months ended June 28, 2008. Our discontinued turkey business did not incur depreciation costs during the third quarter of 2009, the third quarter of 2008 or the first nine months of 2009.

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

	Percentage of Net Sales			
	Three Months Ended		Nine Months Ended	
	June 27, 2009	June 28, 2008	June 27, 2009	June 28, 2008
Net sales	100.0%	100.0 %	100.0 %	100.0 %
Cost of sales	89.7%	97.6 %	96.3 %	97.9 %
Asset impairment	—%	— %	— %	0.2 %
Gross profit	10.3%	2.4 %	3.7 %	1.9 %
Selling, general and administrative (“SG&A”) expenses	4.2%	4.2 %	4.6 %	4.7 %
Restructuring charges, net	—%	0.2 %	— %	0.1 %
Operating income (loss)	6.1%	(2.0) %	(0.9) %	(2.9) %
Interest expense	2.2%	1.6 %	2.3 %	1.6 %
Reorganization items, net	0.9%	— %	1.2 %	— %
Income (loss) from continuing operations before income taxes	3.0%	(3.5) %	(4.3) %	(4.4) %
Income (loss) from continuing operations	3.0%	(2.2) %	(4.4) %	(3.0) %
Net income (loss)	3.0%	(2.4) %	(4.4) %	(3.1) %

Results of Operations

Third Quarter 2009 Compared to Third Quarter 2008

Net sales. Net sales for the third quarter of 2009 decreased $430.7 million, or 19.5%, from the third quarter of 2008. The following table provides net sales information:

Source	Third Quarter 2009	Change from Third Quarter 2008 Amount	Percent
	(In thousands, except percent data)		
Chicken:			
United States	$ 1,516,468	$ (312,695)	(17.1) % (a)
Mexico	126,270	(27,895)	(18.1) % (b)
Total chicken	1,642,738	(340,590)	(17.2) %
Other products:			
United States	127,422	(86,713)	(40.5) % (c)
Mexico	6,653	(3,360)	(33.6) %
Total other products	134,075	(90,073)	(40.2) %
Total net sales	$ 1,776,813	$ (430,663)	(19.5) %

(a) US chicken sales generated in the third quarter of 2009 decreased 17.1% from US chicken sales generated in the third quarter of 2008. Sales volume decreased 17.0% primarily because of previously announced production cutbacks and subsequent reorganization efforts. Net revenue per pound sold decreased 0.1% from the prior year.

(b) Mexico chicken sales generated in the third quarter of 2009 decreased 18.1% from Mexico chicken sales generated in the third quarter of 2008. Sales volume decreased 11.3% from the prior year because of production cutbacks. Net revenue per pound sold decreased 7.8% from the prior year primarily because of the devaluation of the Mexican peso against the US dollar in 2009.

(c) US sales of other products generated in the third quarter of 2009 decreased 40.5% from US sales of other products generated in the third quarter of 2008 mainly as the result of reduced sales volumes on protein conversion products. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered at the Mt. Pleasant, Texas protein conversion facility in late 2008 and subsequent reorganization efforts. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

Gross profit. Gross profit increased by $130.2 million, or 244.7%, from $53.2 million in the third quarter of 2008 to $183.4 million in the third quarter of 2009. The following table provides gross profit information.

Components	Third Quarter 2009	Change from Third Quarter 2008 Amount	Change from Third Quarter 2008 Percent	Percent of Net Sales Third Quarter 2009	Percent of Net Sales Third Quarter 2008
	(In thousands, except percent data)				
Net sales	$ 1,776,813	$ (430,663)	(19.5) %	100.0%	100.0%
Cost of sales	1,593,399	(560,866)	(26.0) %	89.7%	97.6% (a)
Gross profit	$ 183,414	$ 130,203	244.7 %	10.3%	2.4% (b)

(a) Cost of sales incurred by the US operations during the third quarter of 2009 decreased $521.4 million from cost of sales incurred by the US operations during the third quarter of 2008. This decrease occurred primarily because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the quarter partially offset by an aggregate net gain of $97.2 million recognized by the Company during the third quarter of 2008 on derivative financial instruments. The Company did not participate in any derivative financial instrument transactions in the third quarter of 2009. Cost of sales incurred by the Mexico operations during the third quarter of 2009 decreased $39.5 million from cost of sales incurred by the Mexico operations during the third quarter of 2008 primarily because of decreased net sales and decreased feed ingredient costs.

(b) Gross profit as a percent of net sales generated in the third quarter of 2009 increased 7.9 percentage points from gross profit as a percent of sales generated in the third quarter of 2008 primarily because of the cost-savings impact of production cutbacks and decreased feed ingredient costs experienced during the quarter.

Operating income (loss). Operating income results increased by $151.1 million, or 355.3%, from an operating loss of $42.5 million incurred in the third quarter of 2008 to operating income of $108.6 million generated in the third quarter of 2009. The following tables provide operating income (loss) information.

Source	Third Quarter 2009	Change from Third Quarter 2008 Amount	Change from Third Quarter 2008 Percent
	(In thousands, except percent data)		
Chicken:			
United States	$ 72,976	$ 138,401	211.5 %
Mexico	18,046	11,082	159.1 %
Total chicken	91,022	149,483	255.7 %
Other products:			

United States	16,487	(1,879)	(10.2) %
Mexico	1,087	72	7.1 %
Total other products	17,574	(1,807)	(9.3) %
Restructuring items, net	—	3,451	100.0 %
Total operating income	$ 108,596	$ 151,127	355.3 %

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		Change from		Percent of Net Sales		
	Third Quarter	Third Quarter 2008		Third Quarter	Third Quarter	
Components	2009	Amount	Percent	2009	2008	
	(In thousands, except percentages)					
Gross profit	$ 183,414	$ 130,203	244.7 %	10.3%	2.4 %	
SG&A expenses	74,818	(17,473)	(18.9) %	4.2%	4.2 %	(a)
Restructuring items, net	—	(3,451)	(100.0) %	—%	0.2 %	(b)
Operating income	$ 108,596	$ 151,127	355.3 %	6.1%	(2.0) %	(c)

(a) SG&A expenses incurred by the US operations during the third quarter of 2009 decreased 17.0% from SG&A expenses incurred by the US operations during the third quarter of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.

(b) The Company incurred severance and other facility closure costs related to restructuring actions taken in the third quarter of 2008.

(c) Operating income as a percent of net sales generated in the third quarter of 2009 increased 8.1 percentage points from operating loss as a percent of sales incurred in the third quarter of 2008 primarily because of the improvement in gross profit performance and the positive impact of 2009 restructuring actions on SG&A expenses.

Interest expense. Interest expense increased 9.4% to $38.8 million in the third quarter of 2009 from $35.5 million in the third quarter of 2008 primarily because of increased borrowings and increased interest rates recognized on several of the non-public credit facilities. As a percent of net sales, interest expense in the third quarter of 2009 increased to 2.2% from 1.6% in the third quarter of 2008.

Reorganization items. The Company incurred net reorganization costs of $16.8 million in the third quarter of 2009. Costs included severance and other costs related to post-petition facility closures and RIF actions, professional fees charged for post-petition reorganization services, asset impairment costs related to a closed processing complex in Dalton, Georgia and a loss recognized on the sale of the Company’s interest in a hog farming joint venture. These costs were partially offset by a gain recognized on the sale of the Company’s closed processing complex in Farmerville, Louisiana.

Income taxes. The Company recorded income tax expense of $0.6 million for the three months ended June 27, 2009, compared to an income tax benefit of $28.5 million for the three months ended June 28, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

Loss from operation of discontinued business. The Company incurred a loss from the operation of its discontinued turkey business of $7.1 million ($4.4 million, net of tax) in the third quarter of 2008. Net sales generated by the discontinued turkey business in the third quarter of 2008 were $14.8 million. There were no net sales or operating results generated by the discontinued turkey business in the third quarter of 2009.

First Nine Months of 2009 Compared to First Nine Months of 2008

Net sales. Net sales for the first nine months of 2009 decreased $1,003.7 million, or 15.8%, from the first nine months of 2008. The following table provides net sales information:

Source	First Nine Months 2009	Change from First Nine Months 2008 Amount	Percent
	(In thousands, except percent data)		
Chicken:			
United States	$ 4,579,725	$ (700,547)	(13.3) % (a)
Mexico	371,386	(31,089)	(7.7) % (b)
Total chicken	4,951,111	(731,636)	(12.9) %
Other products:			
United States	377,790	(270,641)	(41.7) % (c)
Mexico	23,005	(1,440)	(5.9) %
Total other products	400,795	(272,081)	(40.4) %
Total net sales	$ 5,351,906	$ (1,003,717)	(15.8) %

(a) US chicken sales generated in the first nine months of 2009 decreased 13.3% from US chicken sales generated in the first nine months of 2008. Sales volume decreased 14.1% primarily because of previously announced production cutbacks and subsequent reorganization efforts. Net revenue per pound sold increased 0.8% from the prior year primarily because of increased sales prices on a majority of product lines.

(b) Mexico chicken sales generated in the first nine months of 2009 decreased 7.7% from Mexico chicken sales generated in the first nine months of 2008. Sales volume decreased 2.0% from the prior year because of production cutbacks. Net revenue per pound sold decreased 5.9% from the prior year primarily because of the devaluation of the Mexican peso against the US dollar in 2009.

(c) US sales of other products generated in the first nine months of 2009 decreased 41.7% from US sales of other products generated in the first nine months of 2008 mainly as the result of reduced sales volumes protein conversion products partially offset by increased sales prices. The decrease in protein conversion products sales volumes resulted primarily from the ongoing impact of a fire suffered at the Mt. Pleasant, Texas protein conversion facility in late 2008 and subsequent reorganization efforts. Protein conversion is the process of converting poultry byproducts into raw materials for grease, animal feed, biodiesel and feed-stock for the chemical industry.

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Gross profit. Gross profit increased by $75.3 million, or 61.3%, from $122.9 million in the first nine months of 2008 to $198.3 million in the first nine months of 2009. The following table provides gross profit information.

Components	First Nine Months 2009	Change from First Nine Months 2008 Amount	Change from First Nine Months 2008 Percent	Percent of Net Sales First Nine Months 2009	Percent of Net Sales First Nine Months 2008	
	(In thousands, except percent data)					
Net sales	$ 5,351,906	$ (1,003,717)	(15.8) %	100.0%	100.0%	
Cost of sales	5,153,646	(1,067,042)	(17.2) %	96.3%	97.9%	(a)
Asset impairment	—	(12,022)	(100.0) %	—%	0.2%	(b)
Gross profit (loss)	$ 198,260	$ 75,347	61.3 %	3.7%	1.9%	(c)

(a) Cost of sales incurred by the US operations during the first nine months of 2009 decreased $1,015.0 million from cost of sales incurred by the US operations during the first nine months of 2008. This decrease occurred primarily because of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices during the first nine months of 2009 offset by an aggregate net loss of $21.4 million which the Company recognized during the first quarter of 2009 on derivative financial instruments executed in previous quarters to manage its exposure to changes in corn and soybean meal prices. The Company recognized an aggregate net gain of $110.4 million during the first nine months of 2008 on derivative financial instruments. Cost of sales incurred by the Mexico operations during the first nine months of 2009 decreased $52.0 million from cost of sales incurred by the Mexico operations during the first nine months of 2008 primarily because of decreased net sales and decreased feed ingredient costs.

(b) The Company recognized inventory and property, plant and equipment impairment costs related to restructuring actions taken in the first nine months of 2008.

(c) Gross profit as a percent of net sales generated in the first nine months of 2009 increased 1.8 percentage points from gross profit as a percent of sales generated in the first nine months of 2008 primarily because of the cost-savings impact of production cutbacks, decreased feed ingredient purchases and decreased feed ingredient prices experienced during the first nine months of 2009.

Operating income (loss). Operating loss incurred decreased $136.2 million, or 73.4%, from $185.5 million for the first nine months of 2008 to $49.3 million for the first nine months of 2009. The following tables provide operating income (loss) information:

Source	First Nine Months 2009	Change from First Nine Months 2009 Amount	Percent
	(In thousands, except percent data)		
Chicken:			
United States	$ (94,731)	$ 146,350	60.7 %
Mexico	21,900	22,748	2,682.5 %
Total chicken	(72,831)	169,098	69.9 %
Other products:			
United States	20,661	(53,940)	(72.3) %
Mexico	4,819	1,839	61.7 %
Total other products	25,480	(52,101)	(67.2) %
Asset impairment	—	12,022	100.0 %
Restructuring items, net	(1,987)	7,133	78.2 %
Total operating loss	$ (49,338)	$ 136,152	73.4 %

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Components	First Nine Months 2009	Change from First Nine Months 2008 Amount	Change from First Nine Months 2008 Percent	Percent of Net Sales First Nine Months 2009	Percent of Net Sales First Nine Months 2008	
	(In thousands, except percent data)					
Gross profit	$ 198,260	$ 75,347	61.3%	3.7%	1.9%	
SG&A expenses	245,611	(53,672)	(17.9) %	4.6%	4.7%	(a)
Restructuring items, net	1,987	(7,133)	(78.2) %	—%	0.1%	(b)
Operating loss	$ (49,338)	$ 136,152	73.4%	(0.9) %	(2.9) %	(c)

(a) SG&A expenses incurred by the US operations during the first nine months of 2009 decreased 17.4% from SG&A expenses incurred by the US operations during the first nine months of 2008 primarily because of reductions in employee compensation and related benefit costs resulting from restructuring actions taken in 2008 and 2009.

(b) The Company incurred charges totaling $2.0 million, composed primarily of severance costs, related to restructuring actions taken in the first nine months of 2009 partially offset by the elimination of accrued severance costs in excess of actual severance costs incurred for several of the 2008 restructuring actions during the second quarter of 2009, the assumption of the Duluth, Georgia lease obligation by an outside party during the second quarter of 2009 and the elimination of accrued other restructuring costs in excess of actual other restructuring costs incurred for several of the 2008 restructuring actions during the second quarter of 2009. The Company incurred charges totaling $9.1 million, composed of severance and facility shutdown costs, related to restructuring actions taken in the first nine months of 2008.

(c) Operating loss as a percent of net sales incurred in the first nine months of 2009 decreased 2.0 percentage points from operating loss as a percent of sales incurred in the first nine months of 2008 primarily because of improvement in gross profit performance.

Interest expense. Interest expense increased 25.8% to $124.9 million in the first nine months of 2009 from $99.2 million in the first nine months of 2008 primarily because of increased borrowings and increased interest rates recognized on several of the non-public credit facilities. As a percent of net sales, interest expense in the first nine months of 2009 increased to 2.3% from 1.6% in the first nine months of 2008.

Miscellaneous, net. Consolidated miscellaneous income decreased from $4.6 million in the first nine months of 2008 to $4.0 million in the first nine months of 2009 primarily because of unfavorable currency exchange results due to a decrease in the average exchange rate between the Mexican peso and the US dollar during those two periods.

Reorganization items. The Company incurred reorganization costs of $65.4 million in the first nine months of 2009. These costs included (i) severance and other costs related to post-petition facility closures and RIF actions, (ii) financing fees associated with the DIP Credit Agreement, (iii) professional fees charged for post-petition reorganization services, (iv) fees related to the termination of the RPA, (v) asset impairment costs related to a closed processing complex in Dalton, Georgia and (vi) a loss recognized on the sale of the Company's interest in a hog farming joint venture. These costs were partially offset by a gain recognized on the sale of the Company's closed processing complex in Farmerville, Louisiana.

Income taxes. The Company recorded income tax expense of $3.2 million for the nine months ended June 27, 2009, compared to an income tax benefit of $85.5 million for the nine months ended June 28, 2008. The income tax benefit decreased over prior year as a result of the Company's decision to record a valuation allowance against net deferred tax assets, including net operating losses and credit carryforwards, in the US and Mexico.

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Loss from operation of discontinued business. The Company generated income from the operation of its discontinued turkey business of $1.0 million ($0.6 million, net of tax) in the first nine months of 2009 compared to a loss of $7.2 million ($4.5 million, net of tax) incurred in the first nine months of 2008. Net sales generated by the discontinued turkey business in the first nine months of 2009 and the first nine months of 2008 were $25.8 million and $70.8 million, respectively.

Gain on disposal of discontinued business. In March 2008, the Company sold certain assets of its discontinued turkey business and recognized a gain of $1.5 million ($0.9 million, net of tax).

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Liquidity and Capital Resources

The following table presents our available sources of liquidity as of June 27, 2009:

Source of Liquidity	Facility Amount	Amount Outstanding	Available	
		(In millions)		
Cash and cash equivalents	$ —	$ —	$ 101.2	
Investments in available-for-sale securities	—	—	5.9	
Debt facilities:				
DIP Credit Agreement expiring 2009	450.0	—	348.6	(a)(b)
Revolving credit facility expiring 2011	42.1	42.1	—	

(a) Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base at June 27, 2009 was $348.6 million.

(b) At July 30, 2009, total funds available for borrowing under the DIP Credit Agreement were $363.0 million and there were no outstanding borrowings under the DIP Credit Agreement. On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. In connection with the Amendment, the Company agreed to reduce the total available Commitments under the DIP Credit Agreement from $450 million to $350 million.

At June 27, 2009, the Company had $216.8 million outstanding under its revolving credit facility expiring in 2013 and $1,126.4 million outstanding under its revolver/term credit agreement expiring in 2016. At that time, the Company was party to outstanding standby letters of credit totaling $68.3 million. The filing of the Chapter 11 petitions constituted an event of default under, among other of our debt obligations, the revolving credit facility expiring in 2013 and the revolver/term credit agreement expiring in 2016. Outstanding obligations under these facilities became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. Funds are no longer available for borrowing under these two facilities.

Debt Obligations

As previously discussed, on December 1, 2008, the Debtors filed voluntary petitions in the Bankruptcy Court seeking reorganization relief under the Bankruptcy Code. The filing of the Chapter 11 petitions constituted an event of default under certain of our debt obligations, and those debt obligations became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result, the accompanying Consolidated Balance Sheet as of September 27, 2008 includes reclassifications of $1,872.1 million to reflect as current certain long-term debt under the Company’s credit facilities that, absent the stay, would have become automatically and immediately due and payable. Because of the bankruptcy petition, most of the Company’s pre-petition long-term debt is included in Liabilities subject to compromise at June 27, 2009. The Company classifies pre-petition liabilities subject to compromise as a long-term liability because management does not believe the Company will use existing current assets or create additional current liabilities to fund these obligations.

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On December 2, 2008, the Bankruptcy Court granted interim approval authorizing the Company and the Subsidiaries to enter into the Initial DIP Credit Agreement with the DIP Agent and the lenders party thereto. On December 2, 2008, the Company, the US Subsidiaries and the other parties entered into the Initial DIP Credit Agreement, subject to final approval of the Bankruptcy Court. On December 30, 2008, the Bankruptcy Court granted final approval authorizing the Company and the Subsidiaries to enter into the DIP Credit Agreement.

The DIP Credit Agreement provides for an aggregate commitment of up to $450 million, which permits borrowings on a revolving basis. The commitment includes a $25 million sub-limit for swingline loans and a $20 million sub-limit for standby letters of credit. Outstanding borrowings under the DIP Credit Agreement will bear interest at a per annum rate equal to 8.0% plus the greatest of (i) the prime rate as established by the DIP Agent from time to time, (ii) the average federal funds rate plus 0.5%, or (iii) the LIBOR rate plus 1.0%, payable monthly. The weighted average interest rates for the three and nine months ended June 27, 2009 were 11.25% and 11.33%, respectively. The loans under the Initial DIP Credit Agreement were used to repurchase all receivables sold under the Company's RPA. Loans under the DIP Credit Agreement may be used to fund the working capital requirements of the Company and its subsidiaries according to a budget as approved by the required lenders under the DIP Credit Agreement. For additional information on the RPA, see "Off-Balance Sheet Arrangements."

Actual borrowings by the Company under the DIP Credit Agreement are subject to a borrowing base, which is a formula based on certain eligible inventory and eligible receivables. The borrowing base formula is reduced by (i) pre-petition obligations under the Fourth Amended and Restated Secured Credit Agreement dated as of February 8, 2007, among the Company and certain of its subsidiaries, Bank of Montreal, as administrative agent, and the lenders parties thereto, as amended, (ii) administrative and professional expenses incurred in connection with the bankruptcy proceedings, and (iii) the amount owed by the Company and the Subsidiaries to any person on account of the purchase price of agricultural products or services (including poultry and livestock) if that person is entitled to any grower's or producer's lien or other security arrangement. The borrowing base is also limited to 2.22 times the formula amount of total eligible receivables. The DIP Credit Agreement provides that the Company may not incur capital expenditures in excess of $150 million. The Company must also meet minimum monthly levels of EBITDAR. Under the DIP Credit Agreement, "EBITDAR" means, generally, net income before interest, taxes, depreciation, amortization, writedowns of goodwill and other intangibles, asset impairment charges, certain closure costs and other specified costs, charges, losses and gains. The DIP Credit Agreement also provides for certain other covenants, various representations and warranties, and events of default that are customary for transactions of this nature. As of June 27, 2009, the applicable borrowing base and the amount available for borrowings under the DIP Credit Agreement were both $348.6 million as there were no outstanding borrowings under the Credit Agreement.

The principal amount of outstanding loans under the DIP Credit Agreement, together with accrued and unpaid interest thereon, are payable in full at maturity on December 1, 2009, subject to extension for an additional six months with the approval of all lenders thereunder. All obligations under the DIP Credit Agreement are unconditionally guaranteed by the Subsidiaries and are secured by a first priority priming lien on substantially all of the assets of the Company and the Subsidiaries, subject to specified permitted liens in the DIP Credit Agreement.

Under the terms of the DIP Credit Agreement and applicable bankruptcy law, the Company may not pay dividends on the common stock while it is in bankruptcy. Any payment of future dividends and the amounts thereof will depend on our emergence from bankruptcy, our earnings, our financial requirements and other factors deemed relevant by our Board of Directors at the time.

On July 15, 2009, the Company entered into the Amendment, which is subject to the approval of the Bankruptcy Court. The Amendment amends the DIP Credit Agreement to allow the Company to invest in certain interest bearing accounts and government securities, subject to certain conditions. In connection with the Amendment, the Company also agreed to reduce the total available commitments under the DIP Credit Agreement from $450 million to $350 million. The Amendment also allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's other expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than $100 million in margin requirements with respect to all such non-customer hedging contracts.

During the first nine months of 2009, the Company borrowed $616.7 million and repaid $525.6 million under the secured revolver/term credit agreement expiring in 2016, borrowed $214.6 million and repaid $179.7 million under the secured revolving credit facility expiring in 2013, borrowed and repaid $430.8 million under the DIP Credit Agreement and repaid $14.5 million under other facilities.

On November 30, 2008, certain non-Debtor Mexico subsidiaries of the Company (the "Mexico Subsidiaries") entered into a Waiver Agreement and Second Amendment to Credit Agreement (the "Waiver Agreement") with ING Capital LLC, as agent (the "Mexico Agent"), and the lenders signatory thereto (the "Mexico Lenders"). Under the Waiver Agreement, the Mexico Agent and the Mexico Lenders waived any default or event of default under the Credit Agreement dated as of September 25, 2006, by and among the Company, the Mexico Subsidiaries, the Mexico Agent and the Mexico Lenders, the administrative agent, and the lenders parties thereto (the "ING Credit Agreement"), resulting from the Company's filing of its bankruptcy petition with the Bankruptcy Court. Pursuant to the Waiver Agreement, outstanding amounts under the ING Credit Agreement now bear interest at a rate per annum equal to: the LIBOR Rate, the Base Rate, or the TIIE Rate, as applicable, plus the Applicable Margin (as those terms are defined in the ING Credit Agreement). While the Company is operating in Chapter 11, the Waiver Agreement provides for an Applicable Margin for LIBOR loans, Base Rate loans, and TIIE loans of 6.0%, 4.0%, and 5.8%, respectively. The Waiver Agreement further amended the ING Credit Agreement, which expires in 2011, to require the Company to make a mandatory prepayment of the revolving loans, in an aggregate amount equal to 100% of the net cash proceeds received by any Mexico Subsidiary, as applicable, in excess of thresholds specified in the ING Credit Agreement (i) from the occurrence of certain asset sales by the Mexico Subsidiaries; (ii) from the occurrence of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceedings of, any property or asset of any Mexico Subsidiary; or (iii) from the incurrence of certain indebtedness by a Mexico Subsidiary. Any such mandatory prepayments will permanently reduce the amount of the commitment under the ING Credit Agreement. In connection with the Waiver Agreement, the Mexico Subsidiaries pledged substantially all of their receivables, inventory, and equipment and certain fixed assets. The Mexico Subsidiaries are excluded from the US bankruptcy proceedings.

The filing of the bankruptcy petitions constituted an event of default under the secured credit agreement expiring in 2013 and the secured revolver/term credit agreement expiring in 2016 (together, the “Secured Debt”) as well as the 7 5/8% Senior Notes due 2015, the 8 3/8% Senior Subordinated Notes due 2017 and the 9 1/4% Senior Subordinated Notes due 2013 (together, the “Unsecured Debt”). The aggregate principal amount owed under these credit agreements and notes was approximately $2,000.2 million as of June 27, 2009. As a result of such event of default, all obligations under these agreements became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As a result of the Company's Chapter 11 filing, after December 1, 2008, the Company accrued interest incurred on the Secured Debt at the default rate, which is two percent above the interest rate otherwise applicable under the associated credit agreements. Although the agreements related to the Unsecured Debt call for the accrual of interest after December 1, 2008 at a default rate that is two percent above the interest rate otherwise applicable under the associated note agreements, the Company has elected to accrue interest incurred on the Unsecured Debt, for accounting purposes, at the interest rate otherwise applicable under the associated note agreements until such time, if any, that the Bankruptcy Court approves the payment of interest or default interest incurred on the Unsecured Debt. Had the Company accrued interest incurred on the Unsecured Debt at the default rate, it would have recognized additional interest expense totaling $3.3 million and $7.7 million in the three and nine months ended June 27, 2009.

Off-Balance Sheet Arrangements

In June 1999, the Camp County Industrial Development Corporation issued $25 million of variable-rate environmental facilities revenue bonds supported by letters of credit obtained by us under our secured revolving credit facility expiring in 2013. Prior to our bankruptcy filing, the proceeds were available for the Company to draw from over the construction period in order to construct new sewage and solid waste disposal facilities at a poultry by-products plant in Camp County, Texas. The original proceeds from the issuance of the revenue bonds were held by the trustee of the bonds until we drew on the proceeds for the construction of the facility. We had not drawn on the proceeds or commenced construction of the facility prior to our bankruptcy filing. The filing of the bankruptcy petitions constituted an event of default under these bonds. As a result of the event of default, the trustee had the right to accelerate all obligations under the bonds such that they become immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. In December 2008, the holders of the bonds tendered the bonds for remarketing, which was not successful. As a result, the trustee, on behalf of the holders of the bonds, drew upon the letters of credit supporting the bonds. The resulting reimbursement obligation was converted to borrowings under the secured revolving credit facility expiring in 2013 and secured by our domestic chicken inventories. On January 29, 2009, we obtained approval from the Bankruptcy Court to use the original proceeds of the bond offering held by the trustee to repay and cancel the revenue bonds. We received the proceeds of the bond offering from the trustee in March 2009 and immediately repaid and cancelled the revenue bonds.

In connection with the RPA, the Company sold, on a revolving basis, certain of its trade receivables to a special purpose entity (“SPE”) wholly owned by the Company, which in turn sold a percentage ownership interest to third parties. The SPE was a separate corporate entity and its assets were available first and foremost to satisfy the claims of its creditors. The gross proceeds resulting from the sales were included in cash flows from operating activities in the Consolidated Statements of Cash Flows. The loss recognized on the sold receivables during the nine months ended June 27, 2009 was not material. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

We are a party to many routine contracts in which we provide general indemnities in the normal course of business to third parties for various risks. Among other considerations, we have not recorded a liability for any of these indemnities as, based upon the likelihood of payment, the fair value of such indemnities would not have a material impact on our financial condition, results of operations and cash flows.

Historical Flow of Funds

Cash used in operating activities was $53.0 million and $352.0 million for the nine months ended June 27, 2009 and June 28, 2008, respectively. The improvement in cash flows from operating activities was primarily the result of favorable changes in both operating assets and liabilities and deferred tax benefits partially offset by the larger net loss incurred in the first nine months of 2009 as compared to the net loss incurred in the first nine months of 2008.

Our working capital position increased $2,077.1 million to a surplus of $815.0 million and a current ratio of 2.71 at June 27, 2009 compared with a deficit of $1,262.2 million and a current ratio of 0.53 at September 27, 2008 primarily because of a significant decrease in current maturities of long-term debt and the other working capital changes discussed below. Current maturities of long-term debt decreased from $1,874.5 million at September 27, 2008 to $0 at June 27, 2009 as most long-term debt was classified as liabilities subject to compromise because of the bankruptcy proceedings.

Trade accounts and other receivables increased $147.0 million, or 102.0%, to $291.2 million at June 27, 2009 from $144.2 million at September 27, 2008. This increase resulted primarily from our repurchase of receivables originally sold under the RPA. On December 3, 2008, the RPA was terminated and all receivables thereunder were repurchased with proceeds of borrowings under the DIP Credit Agreement.

Inventories decreased $237.4 million, or 22.9%, to $798.8 million at June 27, 2009 from $1,036.2 million at September 27, 2008 due to lower feed ingredient prices and several restructuring actions taken by the Company. These actions include the Company’s previously announced production cutbacks and plant closures that resulted in reduced live flock inventories, feed inventories, and packaging and other supplies inventories. Additionally, the Company made a concerted effort early in the year to sell down surplus inventories in order to generate cash.

Prepaid expenses and other current assets decreased $77.1 million, or 63.0%, to $45.3 million at June 27, 2009 from $122.4 million at September 27, 2008. This decrease occurred primarily because the Company suspended the use of derivative financial instruments in response to its current financial condition. We settled all outstanding derivative financial instruments in October 2008. The Company also sold inventory and collected receivables related to its discontinued turkey business during this period.

Accounts payable decreased $207.3 million, or 54.7%, to $171.6 million at June 27, 2009 from $378.9 million at September 27, 2008. This decrease occurred for various reasons, including lower feed ingredient prices, the impact of the Company’s previously announced production cutbacks, the elimination of a negative book cash position maintained with one of the Company’s cash management providers and because certain vendors with which the Company previously maintained open trade accounts required prepayments for all future deliveries after learning about the Company’s current financial condition. At June 27, 2009, we classified accounts payable totaling $85.6 million as liabilities subject to compromise because of the bankruptcy.

Accrued expenses decreased $145.7 million, or 32.5%, to $303.1 million at June 27, 2009 from $448.8 million at September 27, 2008. This decrease resulted from reductions in the accrued balances for marketing, restructuring, severance and utilities costs and the transition from a self-insured workers compensation program in prior years to a fully-insured, prepaid workers compensation program in the current year. At June 27, 2009, we classified accrued expenses totaling $148.5 million as liabilities subject to compromise because of the bankruptcy.

Cash used in investing activities was $4.2 million and $85.1 million for the first nine months of 2009 and 2008, respectively. Capital expenditures of $65.6 million and $97.6 million for the nine months ended June 27, 2009 and June 28, 2008, respectively, were primarily incurred for the routine replacement of equipment and to improve efficiencies and reduce costs. Capital expenditures for 2009 will be restricted to routine replacement of equipment in our current operations in addition to important projects we began in 2008 and cannot exceed $150 million as allowed under the terms of the DIP Credit Agreement. Cash was used to purchase investment securities totaling $16.1 million and $25.5 million in the first nine months of 2009 and 2008, respectively. Cash proceeds in the first nine months of 2009 and 2008 from the sale or maturity of investment securities were $12.2 million and $18.8 million, respectively. Restricted cash increased $12.9 million in the first nine months of 2009 to collateralize self insurance obligations. Cash proceeds from property disposals for the nine months ended June 27, 2009 and June 28, 2008 were $78.2 million and $19.2 million, respectively.

Cash provided by financing activities was $99.5 million and $424.8 million for the nine months ended June 27, 2009 and June 28, 2008, respectively. Cash proceeds in the first nine months of 2009 from short-term notes payable were $430.8 million. Cash was used to repay short-term notes payable totaling $430.8 million in the first nine months of 2009. Cash proceeds in the first nine months of 2009 and 2008 from long-term debt were $831.2 million and $1,217.0 million, respectively. Cash was used to repay long-term debt totaling $719.7 million and $1,017.0 million in the first nine months of 2009 and 2008, respectively. Cash proceeds in the first nine months of 2008 from the sale of common stock were $177.2 million. Cash used in the first nine months of 2009 because of a decrease in outstanding cash management obligations totaled $11.2 million. Cash provided in the first nine months of 2008 because of an increase in outstanding cash management obligations totaled $57.7 million. Cash was used for other financing activities totaling $0.8 million in the first nine months of 2009. Cash was used to pay dividends totaling $4.7 million in the first nine months of 2008.

The only material changes during the nine months ended June 27, 2009, outside the ordinary course of business, in the specified contractual commitments presented in the Company’s Annual Report on Form 10-K for 2008 were the borrowings and repayments under the DIP Credit Agreement. At June 27, 2009, there were no outstanding borrowings under the DIP Credit Agreement.

Accounting Pronouncements

Discussion regarding our recent adoption Financial Accounting Standards Board Staff Position ("FSP") FAS157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13; FSP FAS157-2, Effective Date of FASB Statement No. 157; FSP FAS157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active; FSP FAS157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly; FSP FAS115-2 and FAS124-2, Recognition and Presentation of Other-Than-Temporary Impairments; FSP FAS107-1 and APB28-1, Interim Disclosures about Fair Value of Financial Instruments, and Statement of Financial Accounting Standards ("SFAS") No. 165, Subsequent Events, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

Discussion regarding our pending adoption of SFAS No. 141(R), Business Combinations; SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51; FSP FAS142-3, Determination of the Useful Life of Intangible Assets, and FSP FAS132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, is included in Note B—Basis of Presentation to our Consolidated Financial Statements included elsewhere in this report.

Critical Accounting Policies

During the nine months ended June 27, 2009, (i) we did not change any of our existing critical accounting policies, (ii) no existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate, and (iii) there were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Feed Ingredients

We purchase certain commodities, primarily corn and soybean meal, for use as ingredients in the feed we either sell commercially or consume in our live operations. As a result, our earnings are affected by changes in the price and availability of such feed ingredients. In the past, we have from time to time attempted to minimize our exposure to the changing price and availability of such feed ingredients using various techniques, including, but not limited to, (i) executing purchase agreements with suppliers for future physical delivery of feed ingredients at established prices and (ii) purchasing or selling derivative financial instruments such as futures and options. Pursuant to a covenant in the DIP Credit Agreement, we agreed that we would not enter into any derivative financial instruments without the prior written approval of lenders holding more than 50% of the commitments under the DIP Credit Agreement, except for commodity derivative instruments entered into at the request or direction of a customer, and in any case, only with financial institutions in connection with bona fide activities in the ordinary course of business and not for speculative purposes. However, on July 15, 2009, the Company entered into the Amendment to the DIP Credit Agreement. Subject to the approval of the Bankruptcy Court, the Amendment allows the Company to enter into certain ordinary course hedging contracts relating to feed ingredients used by the Company and its subsidiaries in their businesses. The Company may only enter into hedging contracts which satisfy the following conditions, among other restrictions: (a) the contract is traded on a recognized commodity exchange; (b) the contract expiration date is no later than March 21, 2010, or a later date if agreed to by the DIP Agent; (c) the Company and its subsidiaries do not have open forward, futures or options positions in the subject commodity, other than commodity hedging arrangements entered into at the request or direction of a customer, in excess of 50% of the Company's expected usage of such commodity for a specified period; (d) the contract is not entered into for speculative purposes; and (e) the Company will not have more than $100 million in margin requirements with respect to all such non-customer hedging contracts.

Market risk is estimated as a hypothetical 10% increase in the weighted-average cost of our primary feed ingredients as of June 27, 2009. Based on our feed consumption during the nine months ended June 27, 2009, such an increase would have resulted in an increase to cost of sales of approximately $183.8 million, excluding the impact of any feed ingredients derivative financial instruments in that period. A 10% change in ending feed ingredients inventories at June 27, 2009 would be $7.1 million, excluding any potential impact on the production costs of our chicken inventories.

Interest Rates

Our earnings are affected by changes in interest rates due to the impact those changes have on our variable-rate debt instruments and the fair value of our fixed-rate debt instruments. Our variable-rate debt instruments represented 57.0% of our long-term debt at June 27, 2009. Holding other variables constant, including levels of indebtedness, a 25-basis-points increase in interest rates would have increased our interest expense by $2.2 million for the first nine months of 2009. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate long-term debt at June 27, 2009.

Due to our current financial condition, our public fixed-rate debt is trading at a discount. As of June 27, 2009, the most recent trades of our 7 5/8% senior unsecured notes and 8 3/8% senior subordinated unsecured notes were executed at average prices of $88.19 per $100.00 par value and $78.30 per $100.00 par value, respectively. Management expects that the fair value of our non-public fixed-rate debt has also decreased, but cannot reliably estimate the fair value at this time. Interest rate risk related to the Company's investments is not significant.

Foreign Currency

Our earnings are also affected by foreign currency exchange rate fluctuations related to the Mexican peso net monetary position of our Mexican subsidiaries. We manage this exposure primarily by attempting to minimize our Mexican peso net monetary position. We are also exposed to the effect of potential currency exchange rate fluctuations to the extent that amounts are repatriated from Mexico to the US. However, we currently anticipate that the cash flows of our Mexico subsidiaries will be reinvested in our Mexico operations. In addition, the Mexican peso exchange rate can directly and indirectly impact our financial condition and results of operations in several ways, including potential economic recession in Mexico because of devaluation of their currency. The impact on our financial position and results of operations resulting from a hypothetical change in the exchange rate between the US dollar and the Mexican peso cannot be reasonably estimated. Foreign currency exchange gains and losses, representing the change in the US dollar value of the net monetary assets of our Mexican subsidiaries denominated in Mexican pesos, was a gain of $0.3 million in the first nine months of 2009 and a gain of $0.7 million in the first nine months of 2008. The average exchange rates for the first nine months of 2009 and 2008 were 13.57 Mexican pesos to 1 US dollar and 10.71 Mexican pesos to 1 US dollar, respectively. No assurance can be given as to how future movements in the Mexican peso could affect our future financial condition or results of operations.

Quality of Investments

The Company and certain retirement plans that it sponsors invest in a variety of financial instruments. In response to the continued turbulence in global financial markets, we have analyzed our portfolios of investments and, to the best of our knowledge, none of our investments, including money market funds units, commercial paper and municipal securities, have been downgraded because of this turbulence, and neither we nor any fund in which we participate hold significant amounts of structured investment vehicles, auction rate securities, collateralized debt obligations, credit derivatives, hedge funds investments, fund of funds investments or perpetual preferred securities. Certain postretirement funds in which the Company participates hold significant amounts of mortgage-backed securities. However, none of the mortgages collateralizing these securities are considered subprime.

Forward Looking Statements

Statements of our intentions, beliefs, expectations or predictions for the future, denoted by the words "anticipate," "believe," "estimate," "expect," "project," “plan,” "imply," "intend," "foresee" and similar expressions, are forward-looking statements that reflect our current views about future events and are subject to risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include the following:

§ Matters affecting the chicken industry generally, including fluctuations in the commodity prices of feed ingredients and chicken;
§ Actions and decisions of our creditors and other third parties with interests in our Chapter 11 proceedings;
§ Our ability to obtain court approval with respect to motions in the Chapter 11 proceedings prosecuted from time to time;
§ Our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Chapter 11 proceedings;
§ Our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
§ Our ability to maintain contracts that are critical to our operations;
§ Our ability to retain management and other key individuals;
§ Our ability to successfully enter into, obtain court approval of and close anticipated asset sales under Section 363 of the Bankruptcy Code;
§ Certain of the Company's restructuring activities, including selling assets, idling facilities, reducing production and reducing workforce, will result in reduced capacities and sales volumes and may have a disproportionate impact on our income relative to the cost savings.
§ Risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases;
§ Risk that the amounts of cash from operations together with amounts available under our DIP Credit Agreement will not be sufficient to fund our operations;
§ Management of our cash resources, particularly in light of our bankruptcy proceedings and our substantial leverage;
§ Restrictions imposed by, and as a result of, our bankruptcy proceedings and our substantial leverage;
§ Additional outbreaks of avian influenza or other diseases, either in our own flocks or elsewhere, affecting our ability to conduct our operations and/or demand for our poultry products;
§ Contamination of our products, which has previously and can in the future lead to product liability claims and product recalls;
§ Exposure to risks related to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate;
§ Changes in laws or regulations affecting our operations or the application thereof;
§ New immigration legislation or increased enforcement efforts in connection with existing immigration legislation that cause our costs of business to increase, cause us to change the way in which we do business or otherwise disrupt our operations;
§ Competitive factors and pricing pressures or the loss of one or more of our largest customers;

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§ Currency exchange rate fluctuations, trade barriers, exchange controls, expropriation and other risks associated with foreign operations;

§ Disruptions in international markets and distribution channels; and

§ The impact of uncertainties of litigation as well as other risks described herein and under “Risk Factors” in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Actual results could differ materially from those projected in these forward-looking statements as a result of these factors, among others, many of which are beyond our control.

In making these statements, we are not undertaking, and specifically decline to undertake, any obligation to address or update each or any factor in future filings or communications regarding our business or results, and we are not undertaking to address how any of these factors may have caused changes to information contained in previous filings or communications. Although we have attempted to list comprehensively these important cautionary risk factors, we must caution investors and others that other factors may in the future prove to be important and affecting our business or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

As of June 27, 2009, an evaluation was performed under the supervision and with the participation of the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that information we are required to disclose in our reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our Senior Chairman of the Board of Directors, Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, the Company's management, including the Senior Chairman of the Board, Chief Executive Officer and Chief Financial Officer, identified no change in the Company's internal control over financial reporting that occurred during the Company's quarter ended June 27, 2009 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 1, 2008, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 08-45664. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company (including the actions described below) is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. At this time it is not possible to predict the outcome of the Chapter 11 filings or their effect on our business or the actions described below.

On June 1, 2009, approximately 555 former and current independent contract broiler growers, their spouses and poultry farms filed an adversary proceeding against the Company in the Bankruptcy Court. In the adversary proceeding, the plaintiffs assert claims against the Company for: (1) violations of sections 202(a), (b) and (e), 7 U.S.C. § 192 of the Packers and Stockyards Act, 1921; (2) intentional infliction of emotional distress; (3) violations of the Texas Deceptive Trade Practices Act; (4) promissory estoppel; (5) simple fraud; and (6) fraud by non-disclosure. In response to the adversary proceeding, the Company has filed, among other things, a motion seeking dismissal of the claims. Assuming this lawsuit, or a portion thereof, is permitted to proceed forward, the Company intends to vigorously defend against the merits of the adversary proceeding. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time.

On December 17, 2008, Kenneth Patterson filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie “Bo” Pilgrim, Lonnie “Ken” Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim’s Pride Compensation Committee and other unnamed defendants (the “Patterson Action”). The complaint, brought pursuant to section 502 of the Employee Retirement Income Security Act of 1974 (“ERISA”), 29 U.S.C. § 1132, alleges that the individual defendants breached fiduciary duties to participants and beneficiaries of the Pilgrim’s Pride Stock Investment Plan (the “Plan”), as administered through the Retirement Savings Plan, and the To-Ricos, Inc. Employee Savings and Retirement Plan (collectively, and together with the Plan, the “Plans”). The allegations in the complaint are similar to the allegations made in the Acaldo case discussed below. Patterson further alleges that he purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held the Company's common stock or units in the Company's common stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants’ individual accounts as benefits due in proportion to the accounts’ diminution in value, attorneys’ fees, an order for equitable restitution and the imposition of constructive trust, and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in this action, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On January 23, 2009, Patterson filed a motion to consolidate the subsequently filed, similar Smalls case, which is discussed below, into this action. The defendants filed a dispositive motion seeking to dismiss the Patterson complaint on April 16, 2009. The motion remains pending.

On January 2, 2009, Denise M. Smalls filed suit in the United States District Court for the Eastern District of Texas, Marshall Division, against Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, Clifford E. Butler, J. Clinton Rivers, Richard A. Cogdill, Renee N. DeBar, Pilgrim’s Pride Compensation Committee and other unnamed defendants (the “Smalls Action”). The complaint and the allegations are similar to those filed in the Patterson case discussed above. Smalls alleges that she purports to represent a class of all persons or entities who were participants in or beneficiaries of the Plan at any time between May 5, 2008 through the present and whose accounts held the Company's common stock or units in the Company's common stock. The complaint seeks actual damages in the amount of any losses the Plan suffered, to be allocated among the participants’ individual accounts as benefits due in proportion to the accounts’ diminution in value, attorneys’ fees; an order for equitable restitution and the imposition of constructive trust; and a declaration that each of the defendants have breached their fiduciary duties to the Plan participants. Although the Company is not a named defendant in these actions, our bylaws require us to indemnify our current and former directors and officers from any liabilities and expenses incurred by them in connection with actions they took in good faith while serving as an officer or director. The likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company cannot be determined at this time. On July 9, 2009, the defendants filed a dispositive motion seeking to dismiss the complaint.

On July 20, 2009, the Court entered an order consolidating the Smalls Action and the Patterson Action. The Company intends to defend vigorously against the merits of these actions and any attempts by either Mr. Patterson or Ms. Smalls to certify a class action.

On October 29, 2008, Ronald Acaldo filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The Complaint alleged that the Company and the individual defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by allegedly failing to disclose that “(a) the Company’s hedges to protect it from adverse changes in costs were not working and in fact were harming the Company’s results more than helping; (b) the Company’s inability to continue to use illegal workers would adversely affect its margins; (c) the Company’s financial results were continuing to deteriorate rather than improve, such that the Company’s capital structure was threatened; (d) the Company was in a much worse position than its competitors due to its inability to raise prices for consumers sufficient to offset cost increases, whereas it competitors were able to raise prices to offset higher costs affecting the industry; and (e) the Company had not made sufficient changes to its business to succeed in the more difficult industry conditions.” Mr. Acaldo further alleged that he purports to represent a class of all persons or entities who acquired the common stock of the Company from May 5, 2008 through September 24, 2008. The Complaint sought unspecified injunctive relief and an unspecified amount of damages.

On November 21, 2008, defendants filed a Motion to Dismiss and Brief in Support Thereof, asserting that plaintiff failed to identify any misleading statements, failed to adequately plead scienter against any defendants, failed to adequately plead loss causation, failed to adequately plead controlling person liability and, as to the omissions that plaintiff alleged defendants did not make, defendants alleged that the omissions were, in fact, disclosed.

On November 13, 2008, Chad Howes filed suit in the U.S. District Court for the Eastern District of Texas, Marshall Division, against the Company and individual defendants Lonnie “Bo” Pilgrim, Lonnie Ken Pilgrim, J. Clinton Rivers, Richard A. Cogdill and Clifford E. Butler. The allegations in the Howes Complaint are identical to those in the Acaldo Complaint, as are the class allegations and relief sought. The defendants were never served with the Howes Complaint.

On May 14, 2009, the Court consolidated the Acaldo and Howes cases and renamed the style of the case, “In re: Pilgrim’s Pride Corporation Securities Litigation.” On May 21, 2009, the Court granted the Pennsylvania Public Fund Group’s Motion for Appointment of Lead Plaintiff. Thereafter, on June 26, 2009, the lead plaintiff filed a Consolidated (and amended) Complaint. The Consolidated Complaint dismissed the Company and Clifford E. Butler as Defendants. In addition, the Consolidated Complaint added the following directors as Defendants: Charles L. Black, S. Key Coker, Blake D. Lovette, Vance C. Miller, James G. Vetter, Jr., Donald L. Wass, Linda Chavez, and Keith W. Hughes. The Consolidated Complaint alleges four causes of action: violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder solely against Lonnie “Bo” Pilgrim, Clint Rivers, and Rick Cogdill (referred as the “Officer Defendants”). Those claims assert that, during the Class Period of May 5, 2008 through October 28, 2008, the Defendants, through various financial statements, press releases and conference calls, made material misstatements of fact and/or omitted to disclose material facts by purportedly failing to completely impair the goodwill associated with the Gold Kist acquisition. The Consolidated Complaint also asserts claims under Section 11 of the Securities Act of 1933 against all Defendants, asserting that, statements made in a Registration Statement in connection with the May 14, 2008 secondary offering of the Company’s common stock were materially false and misleading for their failure to completely impair the goodwill associated with the Gold Kist acquisition. Finally, the Consolidated Complaint asserts a violation of Section 15 of the Securities Act of 1933 against the Officer Defendants only, claiming that the Officer Defendants were controlling persons of the Company and the other Defendants in connection with the Section 11 violation. By the Consolidated Complaint, the lead plaintiff seeks certification of the Class, undisclosed damages, and costs and attorneys’ fees.

No discovery has commenced in the consolidated case, and the case has not been set for trial. We express no opinion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company by virtue of the consolidated case. We understand that the Individual Defendants intend to defend vigorously against the merits of the action and any attempts by the Lead Plaintiff to certify a class action.

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The Wage and Hour Division of the US Department of Labor conducted an industry-wide investigation to ascertain compliance with various wage and hour issues, including the compensation of employees for the time spent on activities such as donning and doffing clothing and personal protective equipment. Due, in part, to the government investigation and the recent US Supreme Court decision in IBP, Inc. v. Alvarez, employees have brought claims against the Company. The claims filed against the Company as of the date of this report include: “Juan Garcia, et al. v. Pilgrim’s Pride Corporation, a/k/a Wampler Foods, Inc.”, filed in Pennsylvania state court on January 27, 2006 and subsequently removed to the US District Court for the Eastern District of Pennsylvania; “Esperanza Moya, et al. v. Pilgrim’s Pride Corporation and Maxi Staff, LLC”, filed March 23, 2006 in the Eastern District of Pennsylvania; “Barry Antee, et al. v. Pilgrim’s Pride Corporation” filed April 20, 2006 in the Eastern District of Texas; “Stephania Aaron, et al. v. Pilgrim’s Pride Corporation” filed August 22, 2006 in the Western District of Arkansas; “Salvador Aguilar, et al. v. Pilgrim’s Pride Corporation” filed August 23, 2006 in the Northern District of Alabama; “Benford v. Pilgrim’s Pride Corporation” filed November 2, 2006 in the Northern District of Alabama; “Porter v. Pilgrim’s Pride Corporation” filed December 7, 2006 in the Eastern District of Tennessee; “Freida Brown, et al v. Pilgrim’s Pride Corporation” filed March 14, 2007 in the Middle District of Georgia, Athens Division; “Roy Menser, et al v. Pilgrim’s Pride Corporation” filed February 28, 2007 in the Western District of Paducah, Kentucky; “Victor Manuel Hernandez v. Pilgrim’s Pride Corporation” filed January 30, 2007 in the Northern District of Georgia, Rome Division; “Angela Allen et al v. Pilgrim’s Pride Corporation” filed March 27, 2007 in United States District Court, Middle District of Georgia, Athens Division; Daisy Hammond and Felicia Pope v. Pilgrim’s Pride Corporation, in the Gainesville Division, Northern District of Georgia, filed on June 6, 2007; Gary Price v. Pilgrim’s Pride Corporation, in the US District Court for the Northern District of Georgia, Atlanta Division, filed on May 21, 2007; Kristin Roebuck et al v. Pilgrim’s Pride Corporation, in the US District Court, Athens, Georgia, Middle District, filed on May 23, 2007; and Elaine Chao v. Pilgrim’s Pride Corporation, in the US District Court, Dallas, Texas, Northern District, filed on August 6, 2007. The plaintiffs generally purport to bring a collective action for unpaid wages, unpaid overtime wages, liquidated damages, costs, attorneys' fees, and declaratory and/or injunctive relief and generally allege that they are not paid for the time it takes to either clear security, walk to their respective workstations, don and doff protective clothing, and/or sanitize clothing and equipment. The presiding judge in the consolidated action in El Dorado issued an initial Case Management order on July 9, 2007. Plaintiffs’ counsel filed a Consolidated Amended Complaint and the parties filed a Joint Rule 26(f) Report. On March 13, 2008, the Court issued an opinion and order finding that plaintiffs and potential class members are similarly situated and conditionally certifying the class for a collective action. The opt-in period is now closed. Approximately 13,700 plaintiffs have opted into the class.

Plaintiffs recently moved the court for leave to amend the consolidated complaint to add certain Company officers. The Company filed a Notice of Suggestion of Bankruptcy before any response to that motion was filed. The court has not yet ruled on the plaintiffs’ motion. Likewise, the court has not issued an order in response to the Company’s notice. The Company recently filed a motion in the Bankruptcy Court to extend the bankruptcy stay to include individual employees and officers named as defendants in cases concerning the Company, including this lawsuit. The motion was denied without prejudice to the Company, commencing an adversary proceeding as to this case in order to seek the relief requested in the motion.

On June 1, 2009, the plaintiffs filed a master proof of claim in the Bankruptcy Court. On June 30, 2009, the Bankruptcy Court issued an order granting limited relief from the automatic stay to allow limited discovery. Pursuant to that order, the parties are currently working on a proposed stipulation to govern such discovery. Also, the Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Court has not ruled on that motion yet. Additionally, the DOL and the Company recently filed an agreed request that the DOL action be remanded to the Northern District of Texas, where it was originally filed. The plaintiffs have objected to this request and the Court has yet to rule on it. The Company believes that it has meritorious defenses to the consolidated lawsuit and intends to assert a vigorous defense to the litigation. We express no opinion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss to the Company.

As of the date of this report, the following suits have been filed against Gold Kist, now merged into Pilgrim’s Pride Corporation, which make one or more of the allegations referenced above: Merrell v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Gainesville Division, filed on December 21, 2006; Harris v. Gold Kist, Inc., in the US District Court for the Northern District of Georgia, Newnan Division, filed on December 21, 2006; Blanke v. Gold Kist, Inc., in the US District Court for the Southern District of Georgia, Waycross Division, filed on December 21, 2006; Clarke v. Gold Kist, Inc., in the US District Court for the Middle District of Georgia, Athens Division, filed on December 21, 2006; Atchison v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 3, 2006; Carlisle v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Middle Division, filed on October 2, 2006; Benbow v. Gold Kist, Inc., in the US District Court for the District of South Carolina, Columbia Division, filed on October 2, 2006; Bonds v. Gold Kist, Inc., in the US District Court for the Northern District of Alabama, Northwestern Division, filed on October 2, 2006. On April 23, 2007, Pilgrim’s filed a Motion to Transfer and Consolidate with the Judicial Panel on Multidistrict Litigation (“JPML”) requesting that all of the pending Gold Kist cases be consolidated into one case. Pilgrim’s Pride withdrew its Motion subject to the Plaintiffs’ counsel’s agreement to consolidate the seven separate actions into the pending Benbow case by dismissing those lawsuits and refiling/consolidating them into the Benbow action. Motions to Dismiss have been filed in all of the pending seven cases, and all of these cases have been formally dismissed. Pursuant to an agreement between the parties, which was approved by Court-order on June 6, 2007, these cases have been consolidated with the Benbow case. On that date, Plaintiffs were authorized to send notice to individuals regarding the pending lawsuits and were instructed that individuals had three months to file consents to opting in as plaintiffs in the consolidated cases. The opt-in period is now closed. To date, there are approximately 3,200 named plaintiffs and opt-in plaintiffs in the consolidated cases. The parties have engaged in limited discovery.

In response to a Notice of Suggestion of Bankruptcy, the Bankruptcy Court issued an order formally staying the case. On May 28, 2009, the plaintiffs filed a master proof of claim in the Bankruptcy Court. On June 30, 2009, the Bankruptcy Court issued an order granting limited relief from the automatic stay to allow limited discovery. Pursuant to that order, the parties are currently working on a proposed stipulation to govern such discovery. Also, the Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Bankruptcy Court has not ruled on that motion yet. Additionally, on May 26, 2009, additional plaintiffs filed an adversary proceeding in the Bankruptcy Court commencing an action under the FLSA, Adversary Proceeding No. 09-4219 (the “Atkinson Action”). On May 28, 2009, approximately 17 individuals filed proofs of claim in the Atkinson Action. The FLSA allegations in the Atkinson Action are similar to those asserted in the MDL and Benbow cases and the plants involved in the Atkinson Action are also involved in the Benbow case. The Company has filed a motion requesting that the claims in this matter be estimated for purposes of allowance and distribution. The Company intends to assert a vigorous defense to the litigation. The likelihood of an unfavorable outcome or the amount or range of ultimate liability cannot be determined at this time.

We are subject to various other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2008 Annual Report on Form 10-K, including under the heading "Item 1A. Risk Factors", which, along with risks disclosed in this report, are all the risks we believe could materially affect the Company’s business, financial condition or future results. These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

ITEM 5. OTHER INFORMATION

As previously announced, the Company filed voluntary Chapter 11 petitions on December 1, 2008. The Chapter 11 cases are being jointly administered under case number 08-45664. The Company has and intends to continue to post important information about the restructuring, including monthly operating reports and other financial information required by the Bankruptcy Court, on the Company's website www.pilgrimspride.com under the “Investors-Reorganization” caption. The Company intends to use its website as a means of complying with its disclosure obligations under SEC Regulation FD. Information is also available via the Company's restructuring information line at (888) 830-4659.

ITEM 6. EXHIBITS

3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company’s Annual Report on Form 10-K for the fiscal year ended October 2, 2004 filed on November 24, 2004).

3.2 Amended and Restated Corporate Bylaws of the Company (incorporated by reference from Exhibit 3.1 of the Company’s Current Report on Form 8-K filed on December 4, 2007).

4.1 Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

4.2 First Supplemental Indenture to the Senior Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

4.3 Form of 7 5/8% Senior Note due 2015 (included in Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.3 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

4.4 Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.4 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

4.5 First Supplemental Indenture to the Senior Subordinated Debt Securities Indenture dated as of January 24, 2007, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference from Exhibit 4.5 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

4.6 Form of 8 3/8% Subordinated Note due 2017 (included in Exhibit 4.5 to the Company’s Current Report on Form 8-K filed on January 24, 2007 and incorporated by reference from Exhibit 4.6 to the Company’s Current Report on Form 8-K filed on January 24, 2007).

10.1 Third Amendment to Amended and Restated Post-Petition Credit Agreement, dated as of July 15, 2009, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of Montreal, as agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on July 17, 2009).

12	Computation of Ratio of Earnings to Fixed Charges.*
31.1	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.3	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Co-Principal Executive Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.3	Certification of Chief Financial Officer of Pilgrim's Pride Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PILGRIM'S PRIDE CORPORATION

	/s/ Richard A. Cogdill
Date: July 31, 2009	Richard A. Cogdill
	Chief Financial and Accounting Officer

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EXHIBIT INDEX

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