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Debt-Laden Companies Under Pressure

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Almost 62 years ago to the day, Aubrey Pilgrim bought a two-bit feed and seed store in east Texas with the help of a \$2,500 bank loan.

His tiny operation grew up to become the **Pilgrim's Pride Corporation**, the alpha-chicken of the poultry business, with 53,000 employees, customers like KFC and Taco Bell — and a heavy load of debt.

On Wednesday, Pilgrim's Pride [warned](#) that it would break certain agreements with its lenders. The move, according to the New York Times's Michael J. de la Merced, underscores the tightening bind that many companies, even those far from Wall Street, find themselves in as loans grow scarce and the economy sputters.

As a government bailout of the financial industry seemed elusive on Thursday, and the credit markets remained on edge, many analysts saw more pain ahead for debt-burdened companies, as well as their shareholders and employees.

Some of these companies, like Pilgrim's Pride, went into hock when times were good to make acquisitions and grow. Others were saddled with debts by financiers who bought them with borrowed money. And still others are simply struggling to pay the bills as the economy worsens.

Every company needs to borrow money to finance its operations, and the cost is rising for virtually all of them because of the unease in the credit markets. But the weakest, like Pilgrim's Pride, are being squeezed particularly hard.

On Thursday, yields on corporate junk bonds — that is, those without investment grade credit ratings — jumped to nearly 14.6 percent, the highest level since late 2002. Prices of risky corporate loans, which are traded like bonds on Wall Street, fell to record lows, fetching about 82 cents on the dollar on average, according to Standard & Poor's. Bonds and loans of blue-chip companies like General Electric weakened too.

"Have we seen anything like this?" asked Kingman D. Penniman, the president of KDP Investment Advisors, a bond research firm. "No. I don't think I've seen good credit go down so much so quickly."

The turmoil in the credit markets is taking its toll on a wide variety of companies. Hard Rock Park, a theme park in Myrtle Beach, S.C., [filed for bankruptcy](#) on Thursday, citing "frozen credit markets."

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Analysts worry that a host of other companies, ranging from mortgage lenders to restaurant chains, will come under mounting pressure, and that companies will start to default on their debts in growing numbers.

"We're just in the beginning of the default cycle," Mr. Penniman told The Times.

"Companies are violating their covenants. They need to come to the debt markets and can't get refinancing."

For Pilgrim's Pride, difficulty with debt is translating into big losses for shareholders.

The company's share price plummeted nearly 40 percent on Wednesday and that much again on Thursday, when the company said it expected to report a "significant loss" for its fourth quarter, in part because of the rising cost of feed and weaker demand for its chicken. Such a deficit would cause the breach of one specific covenant, or lending requirement, with its lenders as of the fiscal year ending on Saturday.

But the company has reached an "understanding" with two groups of lenders, one led by **CoBank** and the other by the **Bank of Montreal**, over a waiver of that covenant, Gary L. Rhodes, a company spokesman, told The Times. Pilgrim's Pride is working to reach a formal 30-day waiver, which would buy it time to work out a "longer-term fix."

As of Thursday, the company had \$2.23 billion in debt, according to Bloomberg News, some of which it piled on when it bought Gold Kist for \$1.1 billion in December 2006. That was the height of the credit boom, when debt flowed freely and terms were cheap, a trap that has since ensnared many companies.

Since the onset of the credit squeeze last summer, analysts have fretted about the health of companies taken over by private equity firms, which often rely on high amounts of debt to finance their deals. But since then, many other companies have been hard pressed to repay their debt, challenged by slowing consumer spending and falling housing prices.

Already, scores of restaurants and retailers have filed for bankruptcy protection. Some, like the retailers **Linens 'n Things**, **Mervyns** and **Steve and Barry's**, were backed by private equity firms. Others, like the Sharper Image and the Bennigan's restaurant chain, were crushed by debt they had incurred for other reasons, like expanding their businesses.

"For consumer-facing companies, you can already see the early stages of trouble," Barry Ridings, a co-head of the restructuring advisory group at Lazard, told The Times. He added that companies like restaurants are often "the canaries in the coal mine" that presage trouble across the economy.

Dozens of other companies are being closely watched for signs of trouble, according to Mr. Penniman. Among those he cited whose debt showed distress were **Sbarro**, the Italian fast-food chain; **Dollar Thrifty Automotive Group**, the rental-car company; and **Sealy**, the mattress maker whose predecessor helped lead to the fall of First Boston.

Analysts are also watching **Claire's Stores**, the costume jewelry purveyor, and **Realogy**, the parent company of the Century 21 and Coldwell Banker real estate brokerage firms.

Though the headlines have been dominated by the likes of financial firms like **Lehman Brothers**, the **American International Group** and **Washington Mutual**, the disarray of the credit markets and the wider economy have extended to every part of the nation.

Hard Rock Park, which features attractions like Led Zeppelin: the Ride, cited a panoply of ailments in its bankruptcy filing. Among them is the collapsed housing market and the spike in energy and gas prices, which led to lower-than-expected ticket sales.

But what drove Hard Rock Park to bankruptcy court was its inability to refinance a \$15

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million revolving line of credit, Steven Goodwin, the company's chief executive and chief financial officer, wrote in a court filing.

"Due to the frozen credit markets," he wrote, the company "was unable to increase the size of the revolving facility as planned."

Essentially, the park operator ran out of money.

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