CONAGRA FOODS INC /DE/
Form 10-Q
April 03, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 24, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 1-7275

CONAGRA FOODS, INC.

(Exact name of registrant as specified in charter)

Delaware	**47-0248710**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One ConAgra Drive, Omaha, Nebraska	**68102-5001**
(Address of principal executive offices)	**(Zip Code)**

(402) 595-4000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Number of shares outstanding of issuer s common stock, as of March 23, 2008, was 487,624,133.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2008	February 25, 2007	February 24, 2008	February 25, 2007
Net sales	$ 3,528.4	$ 2,918.4	$ 9,995.0	$ 8,695.7
Costs and expenses:				
Cost of goods sold	2,555.4	2,143.4	7,362.8	6,447.4
Selling, general and administrative expenses	494.6	450.2	1,426.8	1,337.8
Interest expense, net	62.1	56.1	184.9	166.2
Income from continuing operations before income taxes and equity method investment earnings	416.3	268.7	1,020.5	744.3
Income tax expense	151.5	91.8	371.8	272.4
Equity method investment earnings	45.3	9.6	80.7	24.4
Income from continuing operations	310.1	186.5	729.4	496.3
Income (loss) from discontinued operations, net of tax	(1.0)	6.1	(0.1)	76.3
Net income	$ 309.1	$ 192.6	$ 729.3	$ 572.6
Earnings per share basic				
Income from continuing operations	$ 0.64	$ 0.37	$ 1.49	$ 0.98
Income (loss) from discontinued operations	(0.01)	0.01		0.15
Net income	$ 0.63	$ 0.38	$ 1.49	$ 1.13
Earnings per share diluted				
Income from continuing operations	$ 0.63	$ 0.37	$ 1.48	$ 0.97
Income (loss) from discontinued operations		0.01		0.15
Net income	$ 0.63	$ 0.38	$ 1.48	$ 1.12

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(in millions)

(unaudited)

	Thirteen weeks ended		**Thirty-nine weeks ended**	
	February 24, 2008	**February 25, 2007**	**February 24, 2008**	**February 25, 2007**
Net income	$ 309.1	$ 192.6	$ 729.3	$ 572.6
Other comprehensive income (loss):				
Net derivative adjustment, net of tax	(2.3)	(5.2)	(4.1)	(6.5)
Unrealized gains and losses on available-for-sale securities, net of tax:				
Unrealized holding gains (losses) arising during the period	(0.7)	(0.2)	0.1	1.9
Reclassification adjustment for (gains) losses included in net income		0.1	(3.8)	(2.2)
Currency translation adjustment:				
Unrealized translation gains (losses) arising during the period	(3.4)	(2.8)	38.9	(9.2)
Reclassification adjustment for losses included in net income				21.7
Pension and postretirement healthcare liabilities, net of tax	1.6		5.0	4.1
Comprehensive income	$ 304.3	$ 184.5	$ 765.4	$ 582.4

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions except share data)

(unaudited)

	February 24, 2008	May 27, 2007	February 25, 2007
ASSETS			
Current assets			
Cash and cash equivalents	$ 128.2	$ 735.2	$ 497.0
Receivables, less allowance for doubtful accounts of $25.7, $25.5, and $24.7	1,449.0	1,203.1	1,194.4
Inventories	3,610.3	2,348.5	2,819.8
Prepaid expenses and other current assets	1,147.6	719.2	1,073.2
Total current assets	6,335.1	5,006.0	5,584.4
Property, plant and equipment	5,054.8	5,079.6	4,919.7
Less accumulated depreciation	(2,678.4)	(2,758.4)	(2,705.3)
Property, plant and equipment, net	2,376.4	2,321.2	2,214.4
Goodwill	3,507.3	3,446.9	3,440.8
Brands, trademarks and other intangibles, net	804.0	776.0	795.6
Other assets	363.9	285.4	245.4
	$ 13,386.7	$ 11,835.5	$ 12,280.6
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Notes payable	$ 418.0	$ 21.3	$ 22.7
Current installments of long-term debt	14.8	18.2	21.0
Accounts payable	1,353.7	1,108.1	935.5
Other accrued liabilities	1,966.3	1,533.3	2,125.4
Total current liabilities	3,752.8	2,680.9	3,104.6
Senior long-term debt, excluding current installments	3,175.9	3,220.0	3,235.8
Subordinated debt	200.0	200.0	200.0
Other noncurrent liabilities	1,219.5	1,151.7	1,074.3
Total liabilities	8,348.2	7,252.6	7,614.7
Commitments and contingencies (Note 11)			
Common stockholders equity			
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 566,644,098, 566,410,152, and 566,323,732	2,833.3	2,832.2	2,831.8
Additional paid-in capital	852.9	816.8	801.6
Retained earnings	3,300.6	2,856.0	2,752.3
Accumulated other comprehensive income (loss)	31.7	(5.9)	(12.0)
Less treasury stock, at cost, 79,035,258, 76,631,063, and 68,256,216 common shares	(1,980.0)	(1,916.2)	(1,707.8)

Total common stockholders equity	5,038.5	4,582.9	4,665.9
	$ 13,386.7	$ 11,835.5	$ 12,280.6

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

	Thirty-nine weeks ended	
	February 24, 2008	**February 25, 2007**
Cash flows from operating activities:		
Net income	$ 729.3	$ 572.6
Income (loss) from discontinued operations	(0.1)	76.3
Income from continuing operations	729.4	496.3
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	231.5	267.6
Gain on sale of fixed assets	(1.3)	(0.9)
Gain on sale of businesses and equity method investments		(22.4)
Undistributed earnings of affiliates	(58.1)	(13.8)
Non-cash impairments of investments		4.6
Share-based payments expense	45.4	50.4
Other items	46.5	(119.3)
Change in operating assets and liabilities before effects of business acquisitions and dispositions:		
Accounts receivable	(257.8)	(131.2)
Inventory	(1,243.3)	(694.7)
Prepaid expenses and other current assets	(432.0)	(311.4)
Accounts payable	249.7	127.9
Other accrued liabilities	477.6	502.7
Net cash flows from operating activities continuing operations	(212.4)	155.8
Net cash flows from operating activities discontinued operations	(3.0)	66.2
Net cash flows from operating activities	(215.4)	222.0
Cash flows from investing activities:		
Purchases of marketable securities	(1,351.0)	(2,474.4)
Sales of marketable securities	1,352.0	2,476.1
Additions to property, plant and equipment	(335.2)	(252.5)
Purchase of leased warehouses	(39.2)	(93.6)
Sale of leased warehouses	35.6	91.6
Sale of Swift note receivable		117.4
Sale of property, plant and equipment	23.2	83.1
Sale of businesses and equity method investments		73.6
Purchase of businesses	(124.0)	
Notes receivable and other items	(1.2)	4.3
Net cash flows from investing activities continuing operations	(439.8)	25.6
Net cash flows from investing activities discontinued operations		661.7
Net cash flows from investing activities	(439.8)	687.3

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (continued)

(in millions)

(unaudited)

	Thirty-nine weeks ended	
	February 24, 2008	**February 25, 2007**
Cash flows from financing activities:		
Net short-term borrowings	395.4	(9.2)
Repayment of long-term debt	(11.3)	(28.6)
Repurchase of ConAgra Foods common shares	(88.1)	(400.4)
Cash dividends paid	(269.6)	(276.6)
Debt exchange premium payment, including issuance costs		(93.7)
Proceeds from exercise of employee stock options	19.2	60.9
Other items	2.6	3.7
Net cash flows from financing activities continuing operations	48.2	(743.9)
Net cash flows from financing activities discontinued operations		
Net cash flows from financing activities	48.2	(743.9)
Net change in cash and cash equivalents	(607.0)	165.4
Cash and cash equivalents at beginning of period	735.2	331.6
Cash and cash equivalents at end of period	$ 128.2	$ 497.0

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the Company) annual report on Form 10-K for the fiscal year ended May 27, 2007.

The results of operations for any quarter or a partial fiscal year period are not necessarily indicative of the results to be expected for other periods or the full fiscal year.

Basis of Consolidation The condensed consolidated financial statements include the accounts of ConAgra Foods and all majority-owned subsidiaries. In addition, the accounts of all variable interest entities for which the Company is determined to be the primary beneficiary are included in the Company s condensed consolidated financial statements from the date such determination is made. All significant intercompany investments, accounts, and transactions have been eliminated.

Variable Interest Entities The Company consolidates the assets and liabilities of several entities from which it leases corporate aircraft. For periods ending prior to November 25, 2007, the Company consolidated several entities from which it leases office buildings. Each of these entities had been determined to be a variable interest entity and the Company was determined to be the primary beneficiary of each of these entities. In September 2007, the Company ceased to be the primary beneficiary of the entities from which it leases office buildings and, accordingly, the Company discontinued the consolidation of the assets and liabilities of these entities.

Due to the consolidation of variable interest entities, the Company reflects in its balance sheets:

	February 24, 2008	May 27, 2007	February 25, 2007
Property, plant and equipment, net	$ 52.6	$ 155.9	$ 157.6
Other assets		13.8	11.8
Current installments of long-term debt	3.3	6.1	7.8
Senior long-term debt, excluding current installments	51.7	144.1	143.8
Other accrued liabilities	0.6	0.6	0.6
Other noncurrent liabilities		21.9	20.2

The liabilities recognized as a result of consolidating these entities do not represent additional claims on the general assets of the Company. The creditors of these entities have claims only on the assets of the specific variable interest entities to which they have advanced credit.

Investments in Unconsolidated Affiliates The investments in and the operating results of 50%-or-less-owned entities not required to be consolidated are included in the consolidated financial statements on the basis of the equity method of accounting or the cost method of accounting, depending on specific facts and circumstances.

The Company reviews its investments in unconsolidated affiliates for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary might include the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. Management s assessment as to whether any decline in value is other than temporary is based on the Company s ability and intent to hold the investment and whether evidence indicating the carrying value of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Management generally considers the Company s investments in its equity method investees to be strategic long-term investments. Therefore, management completes its assessments with a long-term viewpoint. If the fair value

of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

Cash and Cash Equivalents Cash and all highly liquid investments with an original maturity of three months or less at the date of acquisition, including short-term time deposits and government agency and corporate obligations, are classified as cash and cash equivalents. Restricted cash deposits in margin accounts required for exchange-traded activity of

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

approximately $63 million, $95 million, and $178 million are included in prepaid expenses and other current assets in the Company s consolidated balance sheets at February 24, 2008, May 27, 2007, and February 25, 2007, respectively.

Accounts Payable Included in accounts payable are short-term notes payable for goods with repayment terms of up to 180 days, the balances of which were $178.0 million, $204.3 million, and $133.2 million, at February 24, 2008, May 27, 2007, and February 25, 2007, respectively.

Shipping and Handling Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs are included in cost of goods sold.

Comprehensive Income Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains/losses from pension and postretirement health care plans. The Company generally deems its foreign investments to be essentially permanent in nature and does not provide for taxes on currency translation adjustments arising from converting the investment in a foreign currency to U.S. dollars. When the Company determines that a foreign investment is no longer permanent in nature, estimated taxes are provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments.

The following details the income tax expense (benefit) on components of other comprehensive income:

	Thirteen weeks ended		**Thirty-nine weeks ended**	
	February 24, 2008	**February 25, 2007**	**February 24, 2008**	**February 25, 2007**
Net derivative adjustment	$ (1.4)	$ (3.2)	$ (2.5)	$ (3.4)
Unrealized gains on available-for-sale securities	(0.4)	(0.1)	0.1	1.1
Reclassification adjustment for (gains) losses included in net income		0.1	(2.2)	(1.2)
Pension and postretirement healthcare liabilities	1.5		4.4	0.7
	$ (0.3)	$ (3.2)	$ (0.2)	$ (2.8)

Accounting Changes As further discussed in Note 10, the Company adopted FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes (as amended)*, as of the beginning of fiscal 2008. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As further discussed in Note 12, the Company elected to adopt the measurement date provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of May 28, 2007.

Recently Issued Accounting Pronouncements In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, effective as of the beginning of the Company s fiscal 2010, noncontrolling interests will be classified as equity in the Company s financial statements and income and comprehensive income attributed to the noncontrolling interest will be included in the Company s income and comprehensive income. The provisions of this standard must be applied retrospectively upon adoption. Management is currently evaluating the impact of adopting SFAS No. 160 on the Company s consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of SFAS No. 141(R) are effective for the Company s business combinations occurring on or after June 1, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without being required to apply complex hedge accounting provisions. The provisions of SFAS No. 159

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

are effective as of the beginning of the Company s fiscal 2009. Management does not expect the adoption of SFAS No. 159 to have any impact on the Company s consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the Company s fiscal 2009 for the Company s financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in its consolidated financial statements. The FASB has provided for a one-year deferral of the implementation of this standard for other nonfinanical assets and liabilities. Management is currently evaluating the impact of adopting SFAS No. 157 on the Company s consolidated financial position and results of operations.

Use of Estimates Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues, and expenses as reflected in the consolidated financial statements. Actual results could differ from these estimates.

2. ACQUISITIONS AND DIVESTITURES

On July 23, 2007, the Company acquired Alexia Foods, Inc. (Alexia Foods), a privately held natural food company, headquartered in Long Island City, New York, for approximately $50 million in cash plus assumed liabilities. Alexia Foods offers premium natural and organic food items including potato products, appetizers, and artisan breads. At February 24, 2008, $34 million of the purchase price has been allocated to goodwill and $19 million to other intangible assets.

On September 5, 2007, the Company acquired Lincoln Snacks Holding Company, Inc. (Lincoln Snacks), a privately held company located in Lincoln, Nebraska, for approximately $50 million in cash plus assumed liabilities. Lincoln Snacks offers a variety of snack food brands and private label products. At February 24, 2008, $20 million of the purchase price has been allocated to goodwill and $17 million to other intangible assets.

On October 21, 2007, the Company acquired manufacturing assets of Twin City Foods, Inc. (Twin City Foods), a potato processing business, for approximately $23 million in cash.

The assets acquired and liabilities assumed in connection with these acquisitions were as follows:

Fair value of assets acquired	$ 150.3
Cash paid for purchases	122.7
Liabilities assumed	$ 27.6

Under the purchase method of accounting, the assets acquired and liabilities assumed in these acquisitions were recorded at their respective estimated fair values at the date of acquisition. The fair values are subject to refinement as the Company completes its analyses relative to the fair values at the respective acquisition dates.

SUBSEQUENT EVENTS

Watts Brothers Acquisition

On February 25, 2008, the Company acquired Watts Brothers, a privately held group which owns and operates agricultural and farming businesses for approximately $132 million in cash plus assumed liabilities, including debt of approximately $85 million. Immediately following the close of the transaction, the Company retired approximately $64 million of the debt.

Agreement to Sell Trading and Merchandising Operations

On March 27, 2008, the Company entered into an agreement with affiliates of Ospraie Special Opportunities Fund (the Ospraie Investors) to sell its commodity trading and merchandising operations conducted by ConAgra Trade Group and reported as the ConAgra Foods Trading and Merchandising segment. The operations include the domestic and international grain merchandising, fertilizer distribution, agricultural and energy commodities trading and services, and grain, animal and oil seed byproducts merchandising and distribution business. Consummation of the sale is subject to satisfaction of customary closing conditions, including receipt of regulatory approvals and financing matters.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

Under the terms of the agreement, the Company will sell the operations of ConAgra Trade Group for an estimated $2.1 billion, including up to $550 million (face value) of paid-in-kind debt securities of the parent of the successor operating companies. The final price will be adjusted based on working capital changes before the close of the transaction. In addition, the Company will receive an additional $39 million at closing if the post-closing senior operating cash flow facility available to the successor operating companies is rated less than investment grade. The Company has a contingent right to receive a portion of the earnings of the successor operating companies, up to approximately $50 million, payable in additional paid-in-kind debt securities, based on performance through December 21, 2008. The amount is subject to reduction based upon the earnings of ConAgra Trade Group between March 27, 2008 and the closing date. The Company will also receive a warrant to purchase approximately eight percent of the equity of the holding company of the successor operating companies at specified terms. The expected gain on the transaction will be recorded based on cash plus the fair value of non-cash consideration received at the closing date. The warrant and paid-in-kind debt securities received at closing will be recorded at fair value.

As part of this transaction, the Company will transfer its interest in a grain merchandising venture which is currently accounted for as an equity method investment. As of February 24, 2008, the Company s investment in this venture of $88 million is included in other assets. The Company has recognized $38 million of equity method investment earnings in the first three quarters of fiscal 2008 from this investment.

The Company expects to classify the results of operations and cash flows of the Trading and Merchandising segment as discontinued operations and the assets and liabilities of the segment as assets and liabilities held for sale beginning in the fourth quarter of fiscal 2008.

3. DISCONTINUED OPERATIONS AND DIVESTITURES

Packaged Meats Operations

During the second quarter of fiscal 2007, the Company completed its divestiture of the packaged meats operations for proceeds of approximately $553 million. Based upon the Company s estimate of proceeds from the sale of this business, the Company recognized impairment charges totaling $240.4 million ($209.3 million after tax) in the second half of fiscal 2006. The Company recognized additional charges of approximately $21.1 million ($13.0 million after tax) in the first quarter of fiscal 2007. The Company reflects the results of these operations as discontinued operations for all periods presented.

Packaged Cheese Operations

During the first quarter of fiscal 2007, the Company completed its divestiture of the packaged cheese business for proceeds of approximately $97.6 million, resulting in a pre-tax gain of approximately $57.8 million ($32.0 million after tax). The Company reflects the results of these operations as discontinued operations for all periods presented.

Culturelle Business

During the first quarter of fiscal 2007, the Company completed the divestiture of its nutritional supplement business for proceeds of approximately $8.2 million, resulting in a pre-tax gain of approximately $6.2 million ($3.5 million after tax). The Company reflects this gain within discontinued operations.

Portuguese Poultry Business

During fiscal 2005, the Company completed the sale of the Portuguese Poultry business. During the third quarter of fiscal 2008, the Company wrote-off a related receivable resulting in a pre-tax loss of $3.1 million, for which the Company did not receive any tax benefit. The Company reflects this loss within discontinued operations.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

Summary of Operational Results

The summary comparative financial results of the discontinued operations were as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2008	February 25, 2007	February 24, 2008	February 25, 2007
Net sales	$ 1.3	$ 11.7	$ 0.6	$ 724.3
Long-lived asset impairment charge				(21.1)
Operating results from discontinued operations before income taxes	3.3	8.8	4.7	84.3
Net gain (loss) from disposal of businesses	(3.1)	0.6	(3.1)	65.6
Income before income taxes	0.2	9.4	1.6	128.8
Income tax expense	(1.2)	(3.3)	(1.7)	(52.5)
Income (loss) from discontinued operations, net of tax	$ (1.0)	$ 6.1	$ (0.1)	$ 76.3

Other Assets Held for Sale

During the second quarter of fiscal 2007, the Company disposed of a refrigerated pizza business for proceeds of approximately $22.0 million, resulting in no significant gain or loss. Due to the Company s continuing cash flows associated with this business, the results of operations of this business are included in continuing operations for all periods presented.

During the second quarter of fiscal 2007, the Company completed the disposal of an oat milling business for proceeds of approximately $35.8 million, resulting in a pre-tax gain of approximately $17.9 million ($11.1 million after tax). Due to the Company s continuing cash flows associated with this business, the results of operations of this business are included in continuing operations for all periods presented.

During the first quarter of fiscal 2007, two aircraft were sold for proceeds of approximately $31.4 million, resulting in pre-tax gains totaling approximately $4.3 million.

4. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

Goodwill by reporting segment was as follows:

	February 24, 2008	May 27, 2007	February 25, 2007
Consumer Foods	$ 3,308.8	$ 3,254.6	$ 3,254.6
International Foods	96.9	91.3	85.5
Food and Ingredients	85.7	85.1	84.8

Trading and Merchandising	15.9	15.9	15.9
Total	$ 3,507.3	$ 3,446.9	$ 3,440.8

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2008 and February 25, 2007

(columnar dollars in millions except per share amounts)

Other identifiable intangible assets were as follows:

	February 24, 2008		May 27, 2007		February 25, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	$ 779.9	$	$ 752.6	$	$ 771.7	$
Amortizing intangible assets	40.5	16.4	41.9	18.5	41.4	17.5
	$ 820.4	$ 16.4	$ 794.5	$ 18.5	$ 813.1	$ 17.5

Non-amortizing intangible assets are comprised of the following balances:

	February 24, 2008	May 27, 2007	February 25, 2007
Brands/trademarks	$ 779.9	$ 752.6	$ 752.6
Pension intangible asset			19.1
Total non-amortizing intangible assets	$ 779.9	$ 752.6	$ 771.7

On July 23, 2007, the Company acquired Alexia Foods, a privately held natural food company, headquartered in Long Island City, New York, for approximately $50 million in cash plus assumed liabilities. At February 24, 2008, $34 million of the purchase price has been allocated to goodwill and $19 million to other intangible assets.

On September 5, 2007, the Company acquired Lincoln Snacks, a privately held company located in Lincoln, Nebraska for approximately $50 million in cash plus assumed liabilities. At February 24, 2008, $20 million of the purchase price has been allocated to goodwill and $17 million to other intangible assets.

Amortizing intangible assets, carrying a weighted average life of approximately 15 years, are principally composed of licensing arrangements and customer lists. Based on amortizing assets recognized in the Company s balance sheet as of February 24, 2008, amortization expense is estimated to be approximately $2.9 million for each of the next five years.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative assets is recognized within prepaid expenses and other current assets, while the fair value of derivative liabilities is recognized within other accrued liabilities. As of February 24, 2008, May 27, 2007, and February 25, 2007, the fair value of derivatives recognized within prepaid expenses and other current assets was $613.5 million, $360.0 million, and $554.0 million, respectively, while the amount recognized within other accrued liabilities was $572.1 million, $233.2 million, and $324.6 million, respectively.

Generally, the Company enters into economic hedges for a portion of its anticipated consumption of certain commodity inputs and foreign currency cash flows for periods ranging from 12 to 36 months. The Company may enter into longer-term hedges on particular commodities or foreign currencies if deemed appropriate. As of February 24, 2008, the Company had economically hedged certain portions of its anticipated consumption of commodity inputs and foreign currency cash flows through December 2008.

The ineffectiveness associated with derivatives designated as cash flow hedges resulted in no gain or loss for the thirteen weeks ending February 24, 2008 and a gain of $2.4 million for the thirteen weeks ending February 25, 2007. For the thirty-nine weeks ending February 24, 2008 and February 25, 2007, the ineffectiveness associated with derivatives designated as cash flow hedges resulted in losses of $1.1 million and $1.6 million, respectively. Hedge ineffectiveness is recognized within net sales, cost of goods sold, or interest expense, net, depending on the nature of the hedge. The Company does not exclude any component of the hedging instrument s gain or loss when assessing effectiveness.

During the first quarter of fiscal 2008, the Company discontinued its practice of designating derivatives as cash flow hedges of commodity inputs. As such, derivative instruments used to create economic hedges of such commodity inputs are marked-to-market each period with both realized and unrealized changes in market value immediately included in cost of goods sold.

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Amounts deferred in accumulated other comprehensive income for previously designated cash flow hedges continue to be deferred until the hedged transaction affects earnings.

As of February 24, 2008, May 27, 2007, and February 25, 2007, the net deferred gains recognized in accumulated other comprehensive income were $0.8 million, $4.9 million, and $7.8 million, net of tax, respectively. The Company anticipates a gain of $0.8 million, net of tax, will be transferred out of accumulated other comprehensive income and recognized within earnings over the next 12 months.

6. SHARE-BASED PAYMENTS

For the thirteen and thirty-nine weeks ended February 24, 2008, the Company recognized total stock-based compensation expense (including stock options, restricted stock units, performance shares, and restricted cash) of $15.8 million and $44.8 million, respectively. For the thirteen and thirty-nine weeks ended February 25, 2007, the Company recognized total stock-based compensation expense (including stock options, restricted stock units, performance shares, and restricted cash) of $17.1 million and $50.4 million, respectively. The Company granted 0.9 million restricted stock units at a weighted average grant date price of $26.42 during the first three quarters of fiscal 2008. The Company granted 7.3 million stock options at a weighted average grant date price of $26.70 during the first three quarters of fiscal 2008.

Under its 2008 Performance Share Plan, adopted pursuant to stockholder-approved incentive plans, the Company grants selected executives and other key employees performance share awards with vesting contingent upon the Company meeting various Company-wide performance goals. The performance goals are based upon the Company s earnings before interest and taxes (EBIT) and the Company s return on average invested capital (ROAIC) measured over a defined performance period. The awards actually earned will range from zero to three hundred percent of the targeted number of performance shares and be paid in shares of common stock. Subject to limited exceptions set forth in the plan, any shares earned will be distributed at the end of the three-year period. The Company granted 0.7 million performance shares during the first three quarters of fiscal 2008 at a weighted average grant date price of $26.63.

The Company s weighted average Black-Scholes assumptions for stock options granted during the first three quarters of fiscal 2008 are as follows:

Expected volatility (%)	17.47
Dividend yield (%)	2.96
Risk-free interest rate (%)	4.82
Expected life of stock option (years)	4.76

The Company s weighted average Black-Scholes value of stock options granted during the first three quarters of fiscal 2008 was $4.43.

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7. EARNINGS PER SHARE

Basic earnings per share is calculated on the basis of weighted average outstanding common shares. Diluted earnings per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options, restricted stock awards, and other dilutive securities.

The following table reconciles the income and average share amounts used to compute both basic and diluted earnings per share:

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2008	February 25, 2007	February 24, 2008	February 25, 2007
Net income:				
Income from continuing operations	$ 310.1	$ 186.5	$ 729.4	$ 496.3
Income (loss) from discontinued operations, net of tax	(1.0)	6.1	(0.1)	76.3
Net income	$ 309.1	$ 192.6	$ 729.3	$ 572.6
Weighted average shares outstanding:				
Basic weighted average shares outstanding	487.5	503.1	488.1	507.3
Add: Dilutive effect of stock options, restricted stock awards, and other dilutive securities	3.1	3.6	3.4	2.8
Diluted weighted average shares outstanding	490.6	506.7	491.5	510.1

For the third quarter and first three quarters of fiscal 2008, there were, respectively, 17.9 million and 16.6 million stock options outstanding that were excluded from the computation of shares contingently issuable upon exercise of the stock options because exercise prices exceeded the average market value of common stock during the period. For the third quarter and first three quarters of fiscal 2007, there were, respectively, 7.0 million and 16.5 million stock options excluded from the calculation.

8. INVENTORIES

The major classes of inventories are as follows:

	February 24, 2008	May 27, 2007	February 25, 2007
Raw materials and packaging	$ 2,270.1	$ 1,154.2	$ 1,517.7
Work in process	108.2	95.2	127.3
Finished goods	1,165.9	1,008.1	1,032.6
Supplies and other	66.1	91.0	142.2
	$ 3,610.3	$ 2,348.5	$ 2,819.8

Raw materials and packaging includes grain, fertilizer, crude oil, and other trading and merchandising inventory of $1,473.4 million, $691.0 million, and $1,015.7 million as of February 24, 2008, May 27, 2007, and February 25, 2007, respectively.

9. RESTRUCTURING

2006 2008 Restructuring Plan

In February 2006, the Company s Board of Directors approved plans recommended by executive management to simplify the Company s operating structure and reduce its manufacturing and selling, general, and administrative costs. These plans include supply chain rationalization initiatives, the relocation of the Grocery Foods headquarters from Irvine, California to Naperville, Illinois, the centralization of shared services, salaried headcount reductions, and other cost-reduction initiatives. These plans are expected to be substantially completed by the end of fiscal 2008. The forecasted costs for this 2006-2008

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restructuring plan, as updated through February 24, 2008, are $235.2 million, of which a benefit of $0.9 million was recorded in the first three quarters of fiscal 2008, $103.0 million of expense was recorded in fiscal 2007, and $129.8 million of expense was recorded in the second half of fiscal 2006. The Company has recorded expenses associated with its restructuring plans, including but not limited to, asset impairment charges, accelerated depreciation (i.e., incremental depreciation due to an asset s reduced estimated useful life), inventory write-downs, severance and related costs, and plan implementation costs (e.g., consulting, employee relocation, etc.). The Company anticipates it will recognize the following pre-tax expenses associated with the projects identified to date in the fiscal 2006 to 2008 timeframe (including all amounts recognized in the first three quarters of fiscal 2008, and in all of fiscal 2007 and fiscal 2006):

	Consumer Foods	Food and Ingredients	Trading and Merchandising	International Foods	Corporate	Total
Accelerated depreciation	$ 62.8	$	$	$	$	$ 62.8
Inventory write-downs	6.0	0.2				6.2
Severance		1.1				1.1
Other (including plant shutdown costs), net	(1.9)					(1.9)
Total cost of goods sold	66.9	1.3				68.2
Accelerated depreciation	5.7				0.5	6.2
Asset impairment	24.8	1.6				26.4
Severance and related costs	28.2	3.0	0.2	0.7	23.4	55.5
Contract termination	18.2				1.1	19.3
Pension/Postretirement		0.1			4.2	4.3
Plan implementation costs	27.5	0.3			27.7	55.5
Goodwill/Brand impairment		0.4				0.4
Other, net	1.1	(1.7)				(0.6)
Total selling, general and administrative expenses	105.5	3.7	0.2	0.7	56.9	167.0
Consolidated total	$ 172.4	$ 5.0	$ 0.2	$ 0.7	$ 56.9	$ 235.2

Included in the above estimates are $136.2 million of charges which have resulted or will result in cash outflows and $99.0 million of non-cash charges.

During the third quarter of fiscal 2008, the Company recognized the following pre-tax charges (recoveries) in its consolidated statement of earnings:

	Consumer Foods	Food and Ingredients	Trading and Merchandising	International Foods	Corporate	Total
Accelerated depreciation	$ 0.2	$	$	$	$	$ 0.2
Inventory write-downs	1.5					1.5

Total cost of goods sold	1.7					1.7
Severance and related costs	1.2				(0.4)	0.8
Plan implementation costs	1.8					1.8
Other, net	3.7					3.7
Total selling, general and administrative expenses	6.7				(0.4)	6.3
Consolidated total	$ 8.4	$	$	$	$ (0.4)	$ 8.0

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During the first three quarters of fiscal 2008, the Company recognized the following pre-tax charges (recoveries) in its consolidated statement of earnings:

	Consumer Foods	Food and Ingredients	Trading and Merchandising	International Foods	Corporate	Total
Accelerated depreciation	$ 2.6	$	$	$	$	$ 2.6
Inventory write-downs	1.5					1.5
Pension/Postretirement	(1.8)					(1.8)
Other (including plant shutdown costs)	(0.8)					(0.8)
Total cost of goods sold	1.5					1.5
Asset impairment	0.4					0.4
Severance and related costs	(4.5)				(1.0)	(5.5)
Contract termination	(1.8)					(1.8)
Plan implementation costs	4.8				0.2	5.0
Other, net	0.2	(0.7)				(0.5)
Total selling, general and administrative expenses	(0.9)	(0.7)			(0.8)	(2.4)
Consolidated total	$ 0.6	$ (0.7)	$	$	$ (0.8)	$ (0.9)

During the first half of fiscal 2008, the Company reassessed certain aspects of its plans to rationalize its supply chain. The Company determined that it will continue to operate three production facilities that it had previously planned to close. As a result of such determination, previously established reserves, primarily for related severance costs and pension costs, were reversed in the second quarter of fiscal 2008 (as reflected in the table above). The Company is currently evaluating the best use of a new production facility, the construction of which is in progress, in connection with its restructuring plans. The Company, based on its current assessment of likely scenarios, believes the carrying value of this facility ($41.1 million at February 24, 2008) is recoverable. In the event the Company determines that the future use of the new facility will not result in recovery of the recorded value of the asset, an impairment charge would be required.

The Company recognized the following cumulative (plan inception to February 24, 2008) pre-tax charges (recoveries) related to restructuring in its consolidated statements of earnings:

	Consumer Foods	Food and Ingredients	Trading and Merchandising	International Foods	Corporate	Total
Accelerated depreciation	$ 62.7	$	$	$	$	$ 62.7
Inventory write-downs	5.9	0.2				6.1
Severance		1.1				1.1
Other (including plant shutdown costs)	(1.9)					(1.9)
Total cost of goods sold	66.7	1.3				68.0

Accelerated depreciation	5.7				0.4	6.1
Asset impairment	24.8	1.6				26.4
Severance and related costs	28.3	3.1	0.2	0.7	22.7	55.0
Contract termination	18.2				1.1	19.3
Pension/Postretirement		0.1			4.2	4.3
Plan implementation costs	24.5	0.2			28.3	53.0
Goodwill/Brand impairment		0.4				0.4
Other, net	1.1	(1.7)				(0.6)
Total selling, general and administrative expenses	102.6	3.7	0.2	0.7	56.7	163.9
Consolidated total	$ 169.3	$ 5.0	$ 0.2	$ 0.7	$ 56.7	$ 231.9

Included in the above are $133.0 million of charges which have resulted or will result in cash outflows and $98.9 million of non-cash charges.

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Liabilities recorded for the various initiatives and changes therein for the third quarter of fiscal 2008 were as follows:

	Balance at November 26, 2007	Costs Paid or Otherwise Settled	Costs Incurred and Charged to Expense	Changes in Estimates	Balance at February 24, 2008
Severance and related costs	$ 11.1	$ (4.0)	$	$ 0.8	$ 7.9
Plan implementation costs	0.6	(2.0)	1.8		0.4
Total	$ 11.7	$ (6.0)	$ 1.8	$ 0.8	$ 8.3

2008 2009 Restructuring Plan

In February 2008, the Company s Board of Directors approved a plan recommended by executive management to streamline the Company s international operations to reduce its manufacturing and selling, general, and administrative costs. The plan includes the assimilation of the international headquarters into the Company s domestic business and exiting a number of international markets. The plan is expected to be substantially completed by the end of fiscal 2009. The forecasted cost of the plan, as updated through February 24, 2008, is $26.9 million, of which $5.5 million was recorded in the third quarter of fiscal 2008. The Company has recorded expenses associated with this restructuring plan, including but not limited to, inventory write-downs, severance and related costs, and plan implementation costs (e.g., consulting, employee relocation, etc.). The Company anticipates it will recognize the following pre-tax expenses associated with the 2008-2009 plan in the fiscal 2008 to 2009 timeframe (amounts include charges recognized in the third quarter of fiscal 2008):

	International Foods
Accelerated depreciation	$ 0.6
Inventory write-downs	1.3
Total cost of goods sold	1.9
Asset impairment	6.8
Severance and related costs	9.1
Contract termination	6.3
Plan implementation costs	1.2
Goodwill/Brand impairment	0.2
Other, net	1.4
Total selling, general and administrative expenses	25.0
Consolidated total	$ 26.9

Included in these estimates are $17.9 million of charges which have resulted or will result in cash outflows and $9.0 million of non-cash charges.

During the third quarter of fiscal 2008, the Company recognized the following pre-tax charges in its consolidated statement of earnings:

	International Foods	
Inventory write-downs	$	1.3
Total cost of goods sold		1.3
Severance and related costs		3.9
Plan implementation costs		0.1
Brand impairment		0.2
Total selling, general and administrative expenses		4.2
Consolidated total	$	5.5

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Included in the above are $4.0 million of charges which have resulted or will result in cash outflows and $1.5 million of non-cash charges.

Liabilities recorded for the various initiatives and changes therein for the third quarter of fiscal 2008 were as follows:

	Balance at November 26, 2007	Costs Paid or Otherwise Settled	Costs Incurred and Charged to Expense	Changes in Estimates	Balance at February 24, 2008
Severance (and related costs)	$	$	$ 3.7	$	$ 3.7
Plan implementation costs			0.1		0.1
Total	$	$	$ 3.8	$	$ 3.8

10. INCOME TAXES

In the third quarter of fiscal 2008 and 2007, the Company s income tax expense was $151.5 million and $91.8 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately 33% and 34% for the third quarter and first three quarters of fiscal 2008, respectively, and 33% and 35% for the third quarter and first three quarters of fiscal 2007, respectively.

Effective May 28, 2007, the Company adopted the provisions of FIN 48. As a result of the implementation of FIN 48, the Company recognized a $1.2 million decrease in the liability for unrecognized tax benefits, with a corresponding adjustment to retained earnings.

As of May 28, 2007, the Company s gross unrecognized tax benefits were $54.8 million, excluding a related liability of $12.7 million for gross interest and penalties. The liability for gross unrecognized tax benefits at February 24, 2008 was $125.5 million, excluding a related liability of $19.4 million for gross interest and penalties. Included in the balance at February 24, 2008, are $65.1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Any associated interest and penalties imposed would affect the tax rate.

The net amount of unrecognized tax benefits at February 24, 2008 and May 28, 2007 that, if recognized, would impact the Company s effective tax rate is $41.5 million and $39.0 million, respectively. Recognition of these tax benefits would have a favorable impact on the Company s effective tax rate.

The Company accrues interest and penalties associated with uncertain tax positions as part of income tax expense.

The Company conducts business and files tax returns in numerous countries, states, and local jurisdictions. The U.S. Internal Revenue Service (IRS) has completed its audit for tax years through fiscal 2004 and all resulting significant items have been settled with them. Other major jurisdictions where the Company conducts business generally have statutes of limitations ranging from 3 to 5 years.

The Company estimates that it is reasonably possible that the amount of gross unrecognized tax benefits will decrease by $25 million to $35 million over the next twelve months due to various federal, state, and foreign audit settlements and the expiration of statutes of limitations.

11. CONTINGENCIES

In fiscal 1991, the Company acquired Beatrice Company (Beatrice). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, the consolidated post-acquisition financial statements of the Company reflect liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by the Company. The litigation includes several public nuisance and personal injury suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products and the Company as alleged successors to W. P. Fuller Co., a lead paint and pigment manufacturer owned and operated by Beatrice until 1967. Although decisions favorable to the Company have been rendered in Rhode Island, New Jersey, and Wisconsin, the Company remains a defendant in active suits in Illinois, Ohio, and California. The Illinois suit seeks class-wide relief in the form of medical monitoring for elevated levels of lead in blood. The State of Ohio and several of its municipalities seek abatement of the alleged nuisance and unspecified damages. In California, a number of cities and counties have joined in a consolidated action seeking abatement of the alleged public nuisance.

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The environmental proceedings include litigation and administrative proceedings involving Beatrice s status as a potentially responsible party at 36 Superfund, proposed Superfund, or state-equivalent sites; these sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. Beatrice has paid or is in the process of paying its liability share at 34 of these sites. Reserves for these matters have been established based on the Company s best estimate of its undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required cleanup, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The reserves for Beatrice environmental matters totaled $95.9 million as of February 24, 2008, a majority of which relates to the Superfund and state-equivalent sites referenced above space. Expenditures for these matters are expected to continue for a period of up to 20 years.

In certain limited situations, the Company will guarantee an obligation of an unconsolidated entity. Currently, the Company guarantees certain obligations primarily associated with leases entered into by certain of its equity method investees and divested companies. Under these arrangements, the Company is obligated to perform should the primary obligor be unable to perform. Most of these guarantees resulted from the Company s fresh beef and pork divestiture. The remaining terms of these arrangements do not exceed eight years and the maximum amount of future payments the Company has guaranteed is approximately $27.9 million as of February 24, 2008. The Company has also guaranteed the performance of the divested fresh beef and pork business with respect to a hog purchase contract. The hog purchase contract requires the fresh beef and pork business to purchase a minimum of approximately 1.2 million hogs annually through 2014. The contract stipulates minimum price commitments, based in part on market prices and, in certain circumstances, also includes price adjustments based on certain inputs. The Company does not have a liability established in its consolidated balance sheets for these arrangements as the Company has determined that performance under the guarantees is not probable.

The Company is a party to various potato supply agreements. Under the terms of certain such potato supply agreements, the Company has guaranteed repayment of short-term bank loans of the potato suppliers, under certain conditions. At February 24, 2008, the amount of supplier loans effectively guaranteed by the Company was approximately $2.9 million. The Company has not established a liability for these guarantees, as the Company has determined that the likelihood of its required performance under the guarantees is remote.

The Company is party to a number of lawsuits and claims arising out of the operation of its business, including lawsuits and claims related to the February 2007 recall of its peanut butter products. The Company believes that the ultimate resolution of these lawsuits and claims will not have a material adverse effect on the Company s financial condition, results of operations, or liquidity. On June 28, 2007, officials from the Food and Drug Administration s Office of Criminal Investigations executed a search warrant at the Company s peanut butter manufacturing facility in Sylvester, Georgia, to obtain a variety of records and information relating to plant operations. The Company is cooperating with officials in regard to the investigation.

After taking into account liabilities recorded for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on the Company s financial condition, results of operations, or liquidity. Costs of legal services are recognized in earnings as services are provided.

12. PENSION AND POSTRETIREMENT BENEFITS

The Company and its subsidiaries have defined benefit retirement plans (plans) for eligible salaried and hourly employees. Benefits are based on years of credited service and average compensation or stated amounts for each year of service. The Company also sponsors postretirement plans which provide certain medical and dental benefits (other benefits) to qualifying U.S. employees.

The Company historically has used February 28 as its measurement date for its plans. Beginning May 28, 2007, the Company elected to early adopt the measurement date provisions of SFAS No. 158. These provisions require the measurement date for plan assets and liabilities to coincide with the sponsor s fiscal year-end. The Company used the alternative method for adoption. As a result, during the first quarter of fiscal 2008 the Company recorded a decrease to retained earnings of approximately $11.7 million, net of tax, and an increase to accumulated other comprehensive income of approximately $1.6 million, net of tax, representing the periodic benefit cost for the period from March 1, 2007

through the Company s fiscal 2007 year-end.

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Components of pension benefit and other postretirement benefit costs included:

	Pension Costs			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2008	February 25, 2007	February 24, 2008	February 25, 2007
Service cost	$ 15.0	$ 13.1	$ 44.9	$ 42.3
Interest cost	33.3	32.6	100.0	98.0
Expected return on plan assets	(37.1)	(33.7)	(111.4)	(99.5)
Amortization of prior service cost	0.8	0.8	2.5	2.4
Settlement loss				2.0
Recognized net actuarial loss	2.1	4.5	6.3	13.5
Benefit cost Company plans	14.1	17.3	42.3	58.7
Benefit cost multi-employer plans	1.8	1.5	6.3	5.8
Total benefit cost	$ 15.9	$ 18.8	$ 48.6	$ 64.5

	Postretirement Costs			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2008	February 25, 2007	February 24, 2008	February 25, 2007
Service cost	$ 0.3	$ 0.2	$ 0.8	$ 1.2
Interest cost	5.3	5.0	16.0	15.4
Expected return on plan assets			(0.1)	(0.2)
Amortization of prior service cost	(2.9)	(2.9)	(8.7)	(9.9)
Curtailment gain		(9.4)		(9.4)
Recognized net actuarial loss	3.0	2.4	9.0	8.0
Total cost Company plans	$ 5.7	$ (4.7)	$ 17.0	$ 5.1

During the second quarter of fiscal 2007, the Company completed its divestiture of the packaged meats operations. As a result, during the third quarter of fiscal 2007, the Company recognized a pre-tax curtailment gain relating to postretirement benefits totaling approximately $9.4 million. This amount has been recorded within results of discontinued operations.

During the third quarter and first three quarters of fiscal 2008, the Company contributed $2.2 million and $6.2 million, respectively, to the Company s pension plans and contributed $9.8 million and $30.2 million, respectively, to the Company s other postretirement plans. Based upon the current funded status of the plans and the current interest rate environment, the Company anticipates making further contributions of approximately $5.8 million to its pension plans for the remainder of fiscal 2008. The Company anticipates making further contributions of $10.8 million to its other postretirement plans during the remainder of fiscal 2008. These estimates are based on current tax laws, plan asset performance, and liability assumptions, which are subject to change.

13. LONG-TERM DEBT

In December 2006, the Company completed an exchange of approximately $200 million principal amount of its 9.75% subordinated notes due 2021 and $300 million principal amount of its 6.75% senior notes due 2011 for approximately $500 million principal amount of 5.82% senior notes due 2017 and cash of approximately $90 million, in order to improve the Company s debt maturity profile. The Company is amortizing the $90 million cash payment (the unamortized portion of which is reflected as a reduction of senior long-term debt in the Company s consolidated balance sheet at February 24, 2008) over the life of the new notes within interest expense.

For periods ending prior to November 25, 2007, the Company consolidated several entities from which it leases office buildings. These entities were determined to be variable interest entities and the Company was determined to be the primary beneficiary of each of these entities. In September 2007, the Company ceased to be the primary beneficiary of the entities from which it leases office buildings and, accordingly, the Company discontinued the consolidation of the assets and

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liabilities of these entities. This resulted in reducing the amount of long-term debt reflected in the Company s balance sheet by $83 million. However, a lease agreement with one of the variable interest entities was determined to be a capital lease, and, as such, at February 24, 2008 the Company reflected the related leased assets of $46 million in property, plant and equipment, capital lease obligations of $44 million in senior long-term debt, and $2 million in current installments of long-term debt.

14. RELATED PARTY TRANSACTIONS

Trading margins with affiliates (equity method investees) of $9.6 million and $17.5 million for the third quarter and first three quarters of fiscal 2008, respectively, are included in net sales. Trading margins with affiliates of $4.1 million and $3.6 million for the third quarter and first three quarters of fiscal 2007, respectively, are included in net sales. The Company received management fees from affiliates of $4.0 million and $11.9 million in the third quarter and first three quarters of fiscal 2008, respectively. The Company received management fees from affiliates of $3.4 million and $10.5 million in the third quarter and first three quarters of fiscal 2007, respectively. Accounts receivable from affiliates totaled $12.2 million, $2.5 million, and $4.8 million at February 24, 2008, May 27, 2007, and February 25, 2007, respectively. Accounts payable to affiliates totaled $14.2 million, $13.5 million, and $13.1 million at February 24, 2008, May 27, 2007, and February 25, 2007, respectively.

During the first quarter of fiscal 2007, the Company sold an aircraft for proceeds of approximately $8.1 million to a company on whose board of directors one of the Company s directors sits. The Company recognized a gain of approximately $3.0 million on the transaction.

The Company leases various buildings that are beneficially owned by Opus Corporation or entities related to Opus Corporation (the Opus Entities). The Opus Entities are affiliates or part of a large, national real estate development company. A former member of the Company s Board of Directors, who left the board in the second quarter of fiscal 2008, is a beneficial owner, officer, and chairman of Opus Corporation and a director or officer of the related entities. The agreements relate to the leasing of land, buildings, and equipment for the Company in Omaha, Nebraska. The Company occupies the buildings pursuant to long-term leases with Opus Corporation and other investors, and the leases contain various termination rights and purchase options. The Company made rental payments of $3.3 million and $10.2 million in the third quarter and first three quarters of fiscal 2008, respectively, and $3.6 million and $10.8 million in the third quarter and first three quarters of fiscal 2007, respectively, to the Opus Entities. The Company has also contracted with Opus Entities for construction and property management services. The Company made payments of $0.5 million and $2.4 million to the Opus Entities for these services for the third quarter and first three quarters of fiscal 2007, respectively, and $0.3 million and $1.1 million for the third quarter and first three quarters of fiscal 2008, respectively.

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15. BUSINESS SEGMENTS AND RELATED INFORMATION

The Company s operations are organized into four reporting segments: Consumer Foods, Food and Ingredients, Trading and Merchandising, and International Foods. The Consumer Foods reporting segment includes branded, private label, and customized food products which are sold in various retail and foodservice channels. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes. The Food and Ingredients reporting segment includes commercially branded foods and ingredients, which are sold principally to foodservice, food manufacturing, and industrial customers. The segment s primary products include specialty potato products, milled grain ingredients, dehydrated vegetables and seasonings, blends, and flavors. The Trading and Merchandising reporting segment includes the sourcing, merchandising, trading, marketing, and distribution of agricultural and energy commodities. The International Foods reporting segment includes branded food products which are sold in retail channels principally in North America, Europe, and Asia. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

At the beginning of the first quarter of fiscal 2008, the Company shifted management responsibility of its handheld product operations into the Consumer Foods segment from the Food and Ingredients segment, and a portion of its international snack export business from the Consumer Foods segment to the International Foods segment. Accordingly, all prior periods have been recharacterized to reflect these changes.

Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on net sales less all identifiable operating expenses. General corporate expense, net interest expense, equity method investment earnings, and income taxes have been excluded from segment operations.

In February 2008, the Company s Board of Directors approved plans recommended by executive management to streamline the Company s international operations to reduce its manufacturing and selling, general, and administrative costs. The plan includes the assimilation of the international headquarters into the Company s domestic business and exiting a number of international markets. The Company has also begun transitioning the direct management of the Consumer Foods reporting segment to the Chief Executive Officer. The Company expects these actions, along with other cost reduction plans expected to be finalized in the fourth quarter of fiscal 2008, when fully implemented, to result in changes to the Company s reporting segments.

The Company initiated a voluntary recall of all varieties of peanut butter manufactured at its Sylvester, Georgia plant during the third quarter of fiscal 2007. That action has resulted in direct costs related to the recall, most notably product retrieval and destruction costs, legal expenses and liabilities, and other costs. Furthermore, since the Company had no peanut butter in the marketplace from the time of the recall until the reintroduction of the Peter Pan® peanut butter brand in August 2007, the size of the Company s peanut butter business during the first three quarters of fiscal 2008 was much smaller than what it was prior to the recall. The direct costs of the recall negatively impacted gross margin and operating profit primarily in the Consumer Foods segment for the third quarter and first three quarters of fiscal 2008, as discussed below. Net sales for the Company s peanut butter business in the third quarter and first three quarters of fiscal 2008 were approximately $33 million and $55 million, respectively. Net sales for the Company s peanut butter business in the third quarter and first three quarters of fiscal 2007 were approximately $13 million and $95 million, respectively. Operating profit for the third quarter and first three quarters of fiscal 2008 for the Consumer Foods segment included $3.2 million and $17.8 million, respectively, of costs related to the peanut butter recall. These costs were reflected as an increase to cost of goods sold of $7.1 million for the first three quarters of the year, and increases to selling, general, and administrative expenses in the third quarter and first three quarters of $3.2 million and $10.7 million, respectively. Operating profit for the third quarter and first three quarters of fiscal 2007 for the Consumer Foods segment included $46.6 million of costs related to the peanut butter recall. These costs were reflected as a $16.0 million reduction of net sales, an increase to cost of goods sold of $8.1 million, and an increase to selling, general and administrative expenses of $22.5 million.

During the second quarter of fiscal 2008, the Company voluntarily recalled all of its Banquet® and private label pot pies out of concern for potential salmonella contamination. After evaluation of the pot pie plant with the USDA and implementing changes regarding consumer cooking instructions and more rigorous testing of raw ingredients coming into the plant, the Company resumed pot pie production and distribution to stores. The direct costs of the recall negatively impacted gross margin and operating profit in the Consumer Foods segment for the third quarter

and first three quarters of fiscal 2008, as discussed below. Net sales for the Company s Banquet® and private label pot pie business in the third quarter and first three

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quarters of fiscal 2008 were approximately $32 million and $61 million, respectively. Net sales for the Company s Banquet® and private label pot pie business in the third quarter and first three quarters of fiscal 2007 were approximately $29 million and $78 million, respectively. Operating profit for the third quarter and first three quarters of fiscal 2008 for the Consumer Foods segment included a benefit of $4.1 million and charges of $23.1 million, respectively, related to the Banquet® and private label pot pie recall. These were reflected as an increase in net sales for the third quarter of $2.9 million and a decrease in net sales for the first three quarters of fiscal 2008 of $6.7 million, an increase to cost of goods sold for the third quarter and the first three quarters of fiscal 2008 of $0.6 million and $10.0 million, respectively, and a decrease to selling, general and administrative expenses in the third quarter of fiscal 2008 of $1.8 million and an increase to selling, general and administrative expenses in the first three quarters of fiscal 2008 of $6.4 million.

Operating profit for the third quarter and first three quarters of fiscal 2008 for the Consumer Foods segment included a charge of $8.4 million and $0.6 million, respectively, related to the Company s fiscal 2006-2008 restructuring plan, while the operating profit for the third quarter and first three quarters of fiscal 2007 included restructuring plan charges of $20.0 million and $83.8 million, respectively.

Operating profit for the first three quarters of fiscal 2007 for the Food and Ingredients segment included an $8.0 million gain resulting from a legal settlement related to a fiscal 2005 fire at a production facility and a $17.9 million gain related to the sale of an oat milling facility.

Operating profit for the first three quarters of fiscal 2008 for the Trading and Merchandising segment included a gain of approximately $6.3 million related to the sale of an available-for-sale marketable security.

Operating profit for the International Foods segment for the third quarter and first three quarters of fiscal 2008 included charges of $5.5 million related to the Company s fiscal 2008-2009 restructuring plan. Operating profit for the first three quarters of fiscal 2008 included $0.5 million of costs related to the peanut butter recall, while operating profit for the third quarter and first three quarters of fiscal 2007 included $1.7 million of costs related to the peanut butter recall. Operating profit for the first three quarters of fiscal 2007 included a $3.6 million gain on the sale of a certain international right for a brand.

General corporate expenses included foreign currency derivative gains of $6.9 million and losses of $0.5 million for the third quarter and first three quarters of fiscal 2008, respectively. In fiscal 2008, the Company began to centrally manage foreign currency risk on behalf of the Company s reporting segments. Foreign currency derivatives used in the Company s risk management processes are not designated for hedge accounting treatment. These derivatives are viewed by management as providing economic hedges of the foreign currency risk of certain forecasted transactions. As such, these derivatives are recognized at fair market value with realized and unrealized gains and losses recognized in general corporate expenses. The gains and losses are subsequently recognized in the operating results of the reporting segments in the period in which the underlying transaction being economically hedged affects earnings.

General corporate expenses for the third quarter and first three quarters of fiscal 2007 included charges of $1.0 million and $18.3 million, respectively, related to the Company s fiscal 2006-2008 restructuring plan, and a benefit of $5.3 million resulting from a legal settlement. General corporate expenses for the first three quarters of fiscal 2007 included income of $7.4 million resulting from a favorable resolution of franchise tax matters.

	Thirteen weeks ended	
	February 24, 2008	**February 25, 2007**
Sales to unaffiliated customers		
Consumer Foods	$ 1,765.6	$ 1,631.9
Food and Ingredients	1,034.2	837.4
Trading and Merchandising	563.6	293.3
International Foods	165.0	155.8

Total	$ 3,528.4	$ 2,918.4
Intersegment sales		
Consumer Foods	$ 22.8	$ 17.3
Food and Ingredients	53.9	45.6
Trading and Merchandising	12.7	4.8
International Foods	2.1	1.7

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	Thirteen weeks ended	
	February 24, 2008	**February 25, 2007**
	91.5	69.4
Intersegment elimination	(91.5)	(69.4)
Total	$	$
Net sales		
Consumer Foods	$ 1,788.4	$ 1,649.2
Food and Ingredients	1,088.1&n	