

CONAGRA FOODS INC /DE/

Form 10-Q

April 01, 2009

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended February 22, 2009**

**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  
(State or other jurisdiction of  
incorporation or organization)**

**47-0248710  
(I.R.S. Employer  
Identification No.)**

**One ConAgra Drive, Omaha, Nebraska  
(Address of principal executive offices)**

**68102-5001  
(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  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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding of issuer's common stock, as of March 22, 2009, was 447,231,212.



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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)

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>February 22, 2009</b>	<b>February 24, 2008</b>	<b>February 22, 2009</b>	<b>February 24, 2008</b>
Net sales	\$ 3,134.7	\$ 2,955.3	\$ 9,464.6	\$ 8,527.6
Costs and expenses:				
Cost of goods sold	2,395.8	2,248.4	7,447.7	6,459.7
Selling, general and administrative expenses	425.1	426.1	1,184.0	1,296.9
Interest expense, net	42.0	66.7	134.8	183.7
Income from continuing operations before income taxes and equity method investment earnings	271.8	214.1	698.1	587.3
Income tax expense	91.7	67.4	242.0	197.1
Equity method investment earnings	11.1	20.8	13.9	42.9
Income from continuing operations	191.2	167.5	470.0	433.1
Income from discontinued operations, net of tax	2.0	141.6	333.7	296.2
<b>Net income</b>	<b>\$ 193.2</b>	<b>\$ 309.1</b>	<b>\$ 803.7</b>	<b>\$ 729.3</b>
<b>Earnings per share - basic</b>				
Income from continuing operations	\$ 0.43	\$ 0.34	\$ 1.03	\$ 0.89
Income from discontinued operations		0.29	0.74	0.60
<b>Net income</b>	<b>\$ 0.43</b>	<b>\$ 0.63</b>	<b>\$ 1.77</b>	<b>\$ 1.49</b>
<b>Earnings per share - diluted</b>				
Income from continuing operations	\$ 0.43	\$ 0.34	\$ 1.03	\$ 0.88
Income from discontinued operations		0.29	0.73	0.60
<b>Net income</b>	<b>\$ 0.43</b>	<b>\$ 0.63</b>	<b>\$ 1.76</b>	<b>\$ 1.48</b>

See notes to the condensed consolidated financial statements.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income**  
(in millions)  
(unaudited)

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>February</b>	<b>February</b>	<b>February</b>	<b>February</b>
	<b>22,</b>	<b>24,</b>	<b>22,</b>	<b>24,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income	\$ 193.2	\$ 309.1	\$ 803.7	\$ 729.3
Other comprehensive income (loss):				
Derivative adjustments, net of tax		(2.3)		(4.1)
Unrealized gains and losses on available-for-sale securities, net of tax:				
Unrealized holding gains (losses) arising during the period		(0.7)	(0.9)	0.1
Reclassification adjustment for gains (losses) included in net income			0.3	(3.8)
Currency translation adjustment:				
Unrealized translation gains (losses) arising during the period	(3.2)	(3.4)	(123.7)	38.9
Reclassification adjustment for net losses included in net income			2.0	
Pension and postretirement healthcare liabilities, net of tax	0.3	1.6	(2.0)	5.0
Comprehensive income	\$ 190.3	\$ 304.3	\$ 679.4	\$ 765.4

See notes to the condensed consolidated financial statements.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(in millions except share data)  
(unaudited)

	<b>February 22, 2009</b>	<b>May 25, 2008</b>	<b>February 24, 2008</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 88.2	\$ 140.9	\$ 137.4
Receivables, less allowance for doubtful accounts of \$14.2, \$17.6, and \$16.3	889.0	890.6	904.9
Inventories	2,154.3	1,931.5	2,126.6
Prepaid expenses and other current assets	326.9	451.6	513.2
Current assets held for sale		2,667.4	2,662.2
Total current assets	3,458.4	6,082.0	6,344.3
Property, plant and equipment	5,185.3	5,023.4	4,798.0
Less accumulated depreciation	(2,613.6)	(2,533.6)	(2,536.8)
Property, plant and equipment, net	2,571.7	2,489.8	2,261.2
Goodwill	3,482.1	3,483.3	3,465.2
Brands, trademarks and other identifiable intangibles, net	834.4	816.7	802.8
Other assets	1,049.6	553.2	267.9
Noncurrent assets held for sale		257.5	254.4
	\$ 11,396.2	\$ 13,682.5	\$ 13,395.8
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities			
Notes payable	\$ 185.8	\$ 599.8	\$ 397.7
Current installments of long-term debt	318.3	14.9	14.5
Accounts payable	807.8	786.0	807.3
Accrued payroll	148.7	374.2	305.7
Other accrued liabilities	693.2	688.3	919.3
Current liabilities held for sale		1,188.1	1,317.4
Total current liabilities	2,153.8	3,651.3	3,761.9
Senior long-term debt, excluding current installments	2,876.5	3,186.9	3,174.7
Subordinated debt	195.9	200.0	200.0
Other noncurrent liabilities	1,281.7	1,293.0	1,203.9
Noncurrent liabilities held for sale		13.9	16.8
Total liabilities	6,507.9	8,345.1	8,357.3



Commitments and contingencies (Note 12)

Common stockholders' equity

Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 567,130,430, 566,653,605, and 566,644,098	2,835.8	2,833.4	2,833.3
Additional paid-in capital	794.6	866.9	852.9
Retained earnings	3,953.0	3,409.5	3,300.6
Accumulated other comprehensive income	162.2	286.5	31.7
Less treasury stock, at cost, 119,922,094, 82,282,300, and 79,035,258 common shares	(2,857.3)	(2,058.9)	(1,980.0)
Total common stockholders' equity	4,888.3	5,337.4	5,038.5
	\$ 11,396.2	\$ 13,682.5	\$ 13,395.8

See notes to the condensed consolidated financial statements.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**

(in millions)

(unaudited)

	<b>Thirty-nine weeks ended</b>	
	<b>February</b>	<b>February</b>
	<b>22,</b>	<b>24,</b>
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income	\$ 803.7	\$ 729.3
Income from discontinued operations	333.7	296.2
Income from continuing operations	470.0	433.1
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	237.2	220.6
Gain on sale of fixed assets	(2.3)	(0.8)
Gain on sale of businesses	(19.7)	
Undistributed earnings of affiliates	(0.1)	(20.4)
Share-based payments expense	33.3	43.1
Non-cash interest income on payment-in-kind notes	(18.8)	
Other items	(17.0)	47.2
Change in operating assets and liabilities before effects of business acquisitions and dispositions:		
Accounts receivable	(29.8)	(99.5)
Inventory	(213.6)	(484.0)
Prepaid expenses and other current assets	124.8	(197.6)
Accounts payable	36.5	60.8
Accrued payroll	(79.2)	(52.2)
Other accrued liabilities	(90.4)	125.0
Net cash flows from operating activities continuing operations	430.9	75.3
Net cash flows from operating activities discontinued operations	(807.2)	(288.8)
Net cash flows from operating activities	(376.3)	(213.5)
Cash flows from investing activities:		
Purchases of marketable securities		(1,351.0)
Sales of marketable securities		1,352.0
Additions to property, plant and equipment	(321.6)	(322.5)
Purchase of leased warehouses		(39.2)
Sale of leased warehouses		35.6
Sale of property, plant and equipment	19.1	21.0
Sale of businesses	29.7	
Purchase of businesses and intangible assets	(80.3)	(124.0)
Notes receivable and other items	1.2	0.6
Net cash flows from investing activities continuing operations	(351.9)	(427.5)

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Net cash flows from investing activities	discontinued operations	2,259.1	(10.8)
Net cash flows from investing activities		\$ 1,907.2	\$ (438.3)

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**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (continued)**  
(in millions)  
(unaudited)

	<b>Thirty-nine weeks ended</b>	
	<b>February</b>	<b>February</b>
	<b>22,</b>	<b>24,</b>
	<b>2009</b>	<b>2008</b>
Cash flows from financing activities:		
Net short-term borrowings (payments)	\$ (396.8)	\$ 375.0
Issuance of long-term debt by variable interest entity, net of repayments	40.0	
Repayment of long-term debt	(61.1)	(11.2)
Repurchase of ConAgra Foods common shares	(900.0)	(88.1)
Cash dividends paid	(263.2)	(269.6)
Proceeds from exercise of employee stock options	6.1	19.2
Return of capital to minority interest holder	(20.0)	
Other items	1.6	2.6
Net cash flows from financing activities continuing operations	(1,593.4)	27.9
Net cash flows from financing activities discontinued operations		20.3
Net cash flows from financing activities	(1,593.4)	48.2
Effect of exchange rate changes on cash and cash equivalents	(21.0)	5.8
Net change in cash and cash equivalents	(83.5)	(597.8)
Discontinued operations cash activity included above:		
Add: Cash balance included in assets held for sale at beginning of period	30.8	4.4
Less: Cash balance included in assets held for sale at end of period		
Cash and cash equivalents at beginning of period	140.9	730.8
Cash and cash equivalents at end of period	\$ 88.2	\$ 137.4

See notes to the condensed consolidated financial statements.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 22, 2009 and February 24, 2008**  
**(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, we, us, or our ) annual report on Form 10-K for the fiscal year ended May 25, 2008, as updated in the Current Report on Form 8-K filed on November 25, 2008.

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

***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 condensed consolidated financial statements on the basis of the equity method of accounting or the cost method of accounting, depending on specific facts and circumstances. We review our 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 our 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 our investments in 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.

***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. We generally deem our foreign investments to be essentially permanent in nature and we do not provide for taxes on currency translation adjustments arising from converting the investment in a foreign currency to U.S. dollars. When we determine 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. We reclassified \$2.0 million of foreign currency translation net losses to net income due to the disposal or substantial liquidation of foreign subsidiaries in the first three quarters of fiscal 2009.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 22, 2009 and February 24, 2008**  
**(columnar dollars in millions except per share amounts)**

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

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>February</b>	<b>February</b>	<b>February</b>	<b>February</b>
	<b>22,</b>	<b>24,</b>	<b>22,</b>	<b>24,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net derivative adjustment	\$	\$ (1.4)	\$	\$ (2.5)
Unrealized gains (losses) on available-for-sale securities		(0.4)	(0.5)	0.1
Reclassification adjustment for (gains) losses on available-for-sale securities included in net income			0.2	(2.2)
Pension and postretirement healthcare liabilities	0.6	1.5	4.1	4.4
	\$ 0.6	\$ (0.3)	\$ 3.8	\$ (0.2)

**Accounting Changes** We adopted Emerging Issues Task Force ( EITF ) 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Contracts*, as of the beginning of fiscal 2009. EITF 06-4 requires an employer to recognize a liability for future benefits provided to employees under a split-dollar life insurance arrangement. As a result of the implementation of EITF 06-4, we recognized a \$6.2 million liability for such future benefits with a corresponding adjustment, net of tax, of \$3.9 million to retained earnings. In February 2007, the Financial Accounting Standards Board ( 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. The provisions of SFAS No. 159 were effective as of the beginning of our fiscal 2009. The adoption of SFAS No. 159 had no impact on our 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 were effective as of the beginning of our fiscal 2009 for our financial assets and liabilities, as well as for other assets and liabilities that are carried at fair value on a recurring basis in our consolidated financial statements. The FASB has provided for a one-year deferral of the implementation of this standard for other nonfinancial assets and liabilities. Assets and liabilities subject to this deferral include goodwill, intangible assets, and long-lived assets measured at fair value for impairment assessments, and nonfinancial assets and liabilities initially measured at fair value in a business combination. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial position or results of operations. The additional disclosures required by this statement are included in Note 16.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*. This standard requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The provisions of this statement were effective for our third quarter of fiscal 2009. The adoption of SFAS No. 161 had no impact on our consolidated financial position or results of operations. The additional disclosures required by this statement are included in Note 6.

In December 2008, the FASB issued FASB Staff Position ( FSP ) FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. This FSP requires public companies to provide additional disclosures about transfers of financial assets and to provide additional disclosures about their involvement with variable interest entities. The provisions of this statement were effective for our third quarter of fiscal 2009. The additional disclosures required by this statement are included in Note 4.

***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 our fiscal 2010, noncontrolling interests will be classified as equity in our financial statements and income and comprehensive income attributed to the noncontrolling interest will be included in our income and comprehensive income. The provisions of this standard must be applied retrospectively upon adoption. We are currently evaluating the impact of adopting SFAS No. 160 on our consolidated financial position and results of operations.

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**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 22, 2009 and February 24, 2008**  
**(columnar dollars in millions except per share amounts)**

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 our business combinations occurring on or after June 1, 2009.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. FSP EITF 03-6-1 requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the computation of earnings per share under the two-class method. FSP EITF 03-6-1 is effective as of the beginning of our fiscal 2010. We do not expect the adoption of this FSP to have a material impact on our financial statements.

**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 condensed consolidated financial statements. Actual results could differ from these estimates.

**Reclassifications** Certain prior year amounts have been reclassified to conform with current year presentation.

**2. DISCONTINUED OPERATIONS AND DIVESTITURES**

*Trading and Merchandising Operations*

On March 27, 2008, we entered into an agreement with affiliates of Ospraie Special Opportunities Fund to sell our commodity trading and merchandising operations conducted by ConAgra Trade Group (previously principally reported as the Trading and Merchandising segment). The operations included 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. In June 2008, the sale of the trading and merchandising operations was completed for before-tax proceeds of: 1) approximately \$2.2 billion in cash, net of transaction costs (including incentive compensation amounts due to employees due to accelerated vesting), 2) \$550 million (face value) of payment-in-kind debt securities issued by the purchaser (the Notes ) which were recorded at an initial estimated fair value of \$479 million, 3) a short-term receivable of \$37 million due from the purchaser, and 4) a four-year warrant to acquire approximately 5% of the issued common equity of the parent company of the divested operations, which has been recorded at an estimated fair value of \$1.8 million. We recognized an after-tax gain on the disposition of approximately \$296 million in the first three quarters of fiscal 2009.

The Notes were issued in three tranches: \$99,990,000 principal amount of 10.5% notes due June 19, 2010; \$200,035,000 principal amount of 10.75% notes due June 19, 2011; and \$249,975,000 principal amount of 11.0% notes due June 19, 2012.

The Notes permit payment of interest in cash or additional notes. The Notes may be redeemed in whole or in part prior to maturity at the option of the issuer. Until June 23, 2009, the redemption price is 92.5% of face value, plus accrued interest. Thereafter, redemption is at par plus accrued interest. The Notes contain covenants that, among other things, govern the issuer's ability to make restricted payments and enter into certain affiliate transactions. The Notes also provide for the making of mandatory offers to repurchase upon certain change of control events involving the purchaser, their co-investors, or their affiliates. In the third quarter of fiscal 2009, we received a cash interest payment on the Notes of \$30 million from the purchaser. The Notes, which are classified as other assets, had a carrying value of \$502 million at February 22, 2009.

During the first three quarters of fiscal 2009, we collected the \$37 million short-term receivable due from the purchaser.

We reflect the results of the divested trading and merchandising operations as discontinued operations for all periods presented. The assets and liabilities of the divested trading and merchandising operations have been reclassified as assets and liabilities held for sale within our consolidated balance sheets for all periods prior to the divestiture.

*Knott's Berry Farm® Operations*



During the fourth quarter of fiscal 2008, we completed our divestiture of the *Knott's Berry Farm*<sup>®</sup> ( *Knott's* ) jams and jellies brand and operations for proceeds of approximately \$55 million, resulting in no significant gain or loss. We reflect the results of these operations as discontinued operations for all periods presented. The assets and liabilities