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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(columnar dollars in millions except per share amounts)

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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(columnar dollars in millions except per share amounts)

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: