YELP INC
Form DFAN14A
January 16, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of The Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

YELP INC.
(Name of Registrant as Specified in Its Charter)

SQN INVESTORS LP
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SQN Investors LP, together with the other participants named herein (“SQN”), intends to file a preliminary proxy statement and accompanying proxy card with the Securities and Exchange Commission (“SEC”) to be used to solicit proxies for the election of its slate of director nominees at the 2019 annual meeting of stockholders of Yelp Inc., a Delaware corporation.

Item 1: On January 16, 2019, SQN issued an Investor Presentation, a copy of which is attached hereto as Exhibit 1 and is incorporated herein by reference.

Item 2: On January 16, 2019, SQN issued the following press release:

SQN Issues Detailed Presentation on Yelp

Highlights Yelp’s dramatic underperformance after years of shifting strategy, missed opportunities, dismal execution, decreasing alignment with stockholders and poor corporate governance

Details the significant potential of Yelp including how the Company could achieve $55 to $65 per share by implementing SQN’s recommendations, or $47 to $50 in an immediate private-equity led buyout; Believes strategic acquirers could pay more

In SQN’s view, investors must seize the opportunity to refresh the Board with three new directors, including stockholder representation

Calls for formation of special Board committee to evaluate strategic alternatives – including a review process to determine whether the Company should remain public or consider a sale

Redwood City, CA – (January 16, 2019) – SQN Investors LP (“SQN”, or “we”), a technology-focused investment firm with over $1.1 billion under management and the beneficial owner of more than 4% of the outstanding common stock of Yelp, Inc. (“Yelp” or the “Company”) (NYSE: YELP), today released a comprehensive presentation outlining Yelp’s significant underperformance and detailing why stockholders must seize the opportunity to refresh the Board with three new directors at the 2019 Annual Meeting in order to help Yelp realize its full potential.

The complete presentation can be found at www.SQNLetters.com.

Key highlights of the presentation include:

Yelp has Dramatically Underperformed with no Meaningful Accountability to Stockholders

- Yelp has underperformed the Russell 2000 Technology Index by -117% and its own proxy peer group by -74% over the last five years. It has missed investor expectations in 12 out of the last 19 quarters.
- Yelp's Board is stale, with no new members added since May 2012. It has failed to meaningfully hold the CEO accountable for a shifting strategy, missed opportunities and dismal execution.
- Yelp's unfriendly governance structure has given stockholders few avenues to seek recourse.

Stockholders Must Seize the Opportunity to Refresh the Board

- Yelp's dual-class share structure collapsed in September 2016, creating the possibility for change.
- Stockholders must capitalize on the opportunity to replace three out of eight Directors on Yelp's staggered board in 2019.
- Ahead of the estimated March 8, 2019 nomination deadline for Board candidates, SQN would prefer to work constructively with Yelp on the reconstitution of its Board. Alternatively, SQN will seek support directly from stockholders for its slate of Board candidates.

A Refreshed Board Must Evaluate Strategic Alternatives

- A refreshed board should immediately evaluate strategic alternatives including a possible sale of Yelp.
- SQN believes that the successful implementation of its recommendations could result in a $55 to $65 stock price, or an appreciation of 59% to 89% from Yelp's December 7, 2018 unaffected closing price.
    - Under this "Remain Public" scenario, there is an opportunity to accelerate growth to 20%, expand EBITDA margins to 30%, and return $500 million in cash to stockholders.
- Based on SQN's diligence, an immediate sale to a private equity firm could yield a $47 to $50 stock price, or a 36% to 45% premium. Strategic acquirers could pay an even higher premium.
- SQN believes there is a large universe of potential buyers for Yelp, including strategic acquirers, interested in the Company's high user traffic and large database of consumer reviews.

Amish Mehta, Founder of SQN Investors LP, stated, "We are long-term investors and are now in our fourth year of investment in Yelp. We continue to believe Yelp has great potential to deliver significant value for its investors. However, after years of Yelp underperformance, we have lost patience and believe the Board needs fresh perspectives and stockholder representation. While we are not activists, and prefer to work constructively with Yelp on the reconstitution of its Board, we are prepared to take our recommendations directly to stockholders to seek their support."

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About SQN Investors LP

SQN Investors is a value-oriented investment adviser focused on the technology sector. SQN employs a long-term, concentrated, private equity-like approach to investing in the public equity markets. SQN was launched in 2014 and currently manages over $1.1 billion of capital on behalf of institutions and individual investors.

CERTAIN INFORMATION CONCERNING THE PARTICIPANTS

SQN Investors LP, together with the other participants named herein (collectively, "SQN") intend to file a preliminary proxy statement and accompanying proxy card with the Securities and Exchange Commission ("SEC") to be used to solicit votes for the election of its slate of highly-qualified director nominees at the 2019 annual meeting of stockholders of Yelp Inc., a Delaware corporation (the "Company").

SQN STRONGLY ADVISES ALL STOCKHOLDERS OF THE COMPANY TO READ THE PROXY STATEMENT AND OTHER PROXY MATERIALS AS THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. SUCH PROXY MATERIALS WILL BE AVAILABLE AT NO CHARGE ON THE SEC'S WEB SITE AT HTTP://WWW.SEC.GOV. IN ADDITION, THE PARTICIPANTS IN THIS PROXY SOLICITATION WILL PROVIDE COPIES OF THE PROXY STATEMENT WITHOUT CHARGE, WHEN AVAILABLE, UPON REQUEST. REQUESTS FOR COPIES SHOULD BE DIRECTED TO THE PARTICIPANTS' PROXY SOLICITOR, Saratoga Proxy Consulting LLC, AT (212) 257-1311.

The "Participants" in the proxy solicitation are SQN Investors Master Fund LP, a Cayman Islands limited partnership ("Master Fund"), SQN Investors LP, a Delaware limited partnership ("SQN Investors"), SQN Investors (GP) LLC, a Delaware limited liability company ("SQN GP"), SQN Partners (GP) LLC, a Delaware limited liability company ("Fund GP"), and Amish Mehta.

As of the close of business on January 15, 2018, Master Fund beneficially owned directly 3,337,931 shares of common stock, par value $0.000001 per share, of the Company (the "Common Stock"), representing approximately 4.0% of the outstanding shares of Common Stock. Each of SQN Investors, as the investment adviser of Master Fund, SQN GP, as the general partner of SQN Investors, Fund GP, as the general partner of Master Fund, and Mr. Mehta, as manager of each of SQN GP and Fund GP, may be deemed to beneficially own the 3,337,931 shares of Common Stock beneficially owned directly by Master Fund.

v>

140.8

Private Brands
41.9

65.5

Total operating profit plus equity method investment earnings
$
378.6

$

371.7

General corporate expense
$
141.2

$
113.6

Interest expense, net
83.7

95.8

Income tax expense
42.5

28.9

Income from continuing operations
$
111.2

$
133.4

Less: Net income attributable to noncontrolling interests
2.2

2.9

Income from continuing operations attributable to ConAgra Foods, Inc.
$
109.0

$
130.5

Presentation of Derivative Gains (Losses) for Economic Hedges of Forecasted Cash Flows in Segment Results
Derivatives used to manage commodity price risk and foreign currency risk are not designated for hedge accounting treatment. We believe these derivatives provide economic hedges 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 is included in earnings.

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The following table presents the net derivative gains (losses) from economic hedges of forecasted commodity consumption and the foreign currency risk of certain forecasted transactions, under this methodology:

	Thirteen Weeks Ended	
	August 24, 2014	August 25, 2013
Net derivative losses incurred	$(38.3)	$(18.1)
Less: Net derivative gains allocated to reporting segments	12.0	2.8
Net derivative losses recognized in general corporate expenses	$(50.3)	$(20.9)
Net derivative gains allocated to Consumer Foods	$3.7	$1.9
Net derivative gains allocated to Commercial Foods	3.1	1.7
Net derivative gains (losses) allocated to Private Brands	5.2	(0.8)
Net derivative gains included in segment operating profit	$12.0	$2.8

As of August 24, 2014, the cumulative amount of net derivative losses from economic hedges that had been recognized in general corporate expenses and not yet allocated to reporting segments was $23.4 million. This amount reflected net losses of $38.3 million incurred during the thirteen weeks ended August 24, 2014, as well as net gains of $14.9 million incurred prior to fiscal 2015. Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify to segment operating results losses of $20.7 million in fiscal 2015 and losses of $2.7 million to segment operating results in fiscal 2016 and thereafter, respectively.

Other Information

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 19% and 18% of consolidated net sales in the first quarter of fiscal 2015 and 2014, respectively, primarily in the Consumer Foods and Private Brands segments. Wal-Mart Stores, Inc. and its affiliates accounted for approximately 17% and 16% of consolidated net receivables as of August 24, 2014 and May 25, 2014, respectively, primarily in the Consumer Foods and Private Brands segments.

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

FORWARD-LOOKING STATEMENTS

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current views and assumptions of future events and financial performance and are subject to certain risks, uncertainties and changes in circumstances. We undertake no responsibility for updating these statements. Readers of this report should understand that these statements are not guarantees of performance or results. Many factors could affect our actual financial results and cause them to vary materially from the expectations contained in the forward-looking statements, including those set forth in this report. These factors include, among other things: our ability to realize the synergies and benefits contemplated by the acquisition of Ralcorp Holdings, Inc. ("Ralcorp") and our ability to promptly and effectively integrate the business of Ralcorp; our ability to realize synergies and benefits contemplated by the recently formed Ardent Mills joint venture; risks and uncertainties associated with intangible assets, including any future goodwill or intangible assets impairment charges; the availability and prices of raw materials, including any negative effects caused by inflation or weather conditions; the effectiveness of our product pricing, including product innovation, any pricing actions and changes in promotional strategies; the ultimate outcome of litigation, including litigation related to the lead paint and pigment matters; future economic circumstances; industry conditions; our ability to execute our operating and restructuring plans and achieve operating efficiencies; the success of our cost savings initiatives, innovation and marketing investments; the competitive environment and related market conditions; the ultimate impact of product recalls; access to capital; actions of governments and regulatory factors affecting our businesses, including the Patient Protection and Affordable Care Act; the amount and timing of repurchases of our common stock and debt, if any; and other risks described in our reports filed with the Securities and Exchange Commission. We caution readers not to place undue reliance on any forward-looking statements included in this report, which speak only as of the date of this report.

The following discussion should be read together with our condensed consolidated financial statements and related notes contained in this report and with the financial statements, related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. Results for the first quarter of fiscal 2015 are not necessarily indicative of results that may be attained in the future.

Fiscal 2015 First Quarter Executive Overview

ConAgra Foods, Inc. (NYSE: CAG) is one of North America's largest packaged food companies with branded and private branded food found in 99% of America's households, as well as a strong commercial foods business serving restaurants and foodservice operations globally. Consumers can find recognized brands such as Banquet®, Chef Boyardee®, Egg Beaters®, Healthy Choice®, Hebrew National®, Hunt's®, Marie Callender's®, Orville Redenbacher's®, PAM®, Peter Pan®, Reddi-wip®, Slim Jim®, Snack Pack®, and many other ConAgra Foods brands, along with food sold by ConAgra Foods under private brand labels, in grocery, convenience, mass merchandise, club, and drug stores. Additionally, ConAgra Foods supplies frozen and sweet potato products as well as other vegetable, spice, bakery products, and branded products to commercial and foodservice customers.

In the first quarter of fiscal 2015, earnings reflected increases in Consumer Foods operating profit and continued challenges in Private Brands profitability. We continue to expect fiscal 2015 to be a year of stabilization and recovery. We plan to benefit from stronger underlying operations, generate sizeable productivity and administrative savings, and continue to realize substantial synergies from the Ralcorp transaction. Administrative savings continue to play a growing role in earnings as we implement effectiveness and efficiency initiatives that began in fiscal 2014. We decreased our debt balance by approximately $500 million during the first quarter of fiscal 2015. We intend to continue to focus on repayment of debt through fiscal 2015.

On May 29, 2014, the Company, Cargill, Incorporated ("Cargill"), and CHS Inc. ("CHS"), completed the formation of the previously announced Ardent Mills flour milling joint venture, which combined the North American flour milling operations and related businesses operated through the ConAgra Mills division of ConAgra Foods and the Horizon

Milling joint venture of Cargill and CHS (see "Formation of Ardent Mills" below).
Diluted earnings per share in the first quarter of fiscal 2015 were $1.12, including $0.25 per diluted share from continuing operations and $0.87 per diluted share from discontinued operations. Diluted earnings per share in the first quarter of fiscal 2014 were $0.34, including $0.30 per diluted share from continuing operations and $0.04 per diluted share from discontinued operations. Several significant items affect the comparability of year-over-year results of continuing operations (see "Items Impacting Comparability" below).

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Items Impacting Comparability

Segment presentation of gains and losses from derivatives used for economic hedging of anticipated commodity input costs and economic hedging of foreign currency exchange rate risks of anticipated transactions is discussed in the segment review below.

Items of note impacting comparability for the first quarter of fiscal 2015 included the following:

- charges of $24.6 million ($15.1 million after-tax) related to early extinguishment of debt as a result of the payoff of the Term Loan Facility and the repurchase of certain senior notes,
- charges totaling $21.3 million ($13.2 million after-tax) in connection with our restructuring plans,
- a benefit of $5.8 million ($5.8 million after-tax) related to the reduction of the legal accrual for pending matters associated with the 2007 peanut butter recall,
- a charge of $3.7 million ($2.3 million after-tax) in connection with a legal matter, and
- charges of $2.2 million ($1.4 million after-tax) in support of our integration of the former Ralcorp business.

Items of note impacting comparability for the first quarter of fiscal 2014 included the following:

- charges of $16.6 million ($10.5 million after-tax) in support of our integration of the former Ralcorp business,
- charges of $9.5 million ($6.0 million after-tax) in connection with our restructuring plans,
- charges of $4.2 million ($2.6 million after-tax) of transaction-related costs, and
- an income tax benefit of $22.4 million from a change in estimate related to the tax methods used for certain international sales, a change in deferred state tax rates relating to the integration of Ralcorp activity for tax purposes, and settlement of a tax issue in Mexico that was previously reserved.

Acquisitions

In July 2014, we acquired TaiMei Potato Industry Limited, a Chinese potato processor, for $92.5 million, consisting of $75.4 million net of cash acquired plus assumed liabilities. The purchase included property and equipment associated with making frozen potato products. This business is included in the Commercial Foods segment.

In September 2013, we acquired frozen dessert production assets from Harlan Bakeries for $39.9 million in cash. The purchase included machinery, operating systems, warehousing/storage, and other assets associated with making frozen fruit pies, cream pies, pastry shells, and loaf cakes. This business is included in the Consumer Foods segment.

Discontinued Operations

In April 2014, we completed the sale of a small snack business, Medallion Foods, for $32.0 million in cash. The business results were previously reflected in the Private Brands segment. We reflected the results of these operations as discontinued operations for all periods presented.

In September 2013, we completed the sale of the assets of the Lightlife® business for $54.7 million in cash. The business results were previously reflected in the Consumer Foods segment. We reflected the results of these operations as discontinued operations for all periods presented.

Formation of Ardent Mills

On May 29, 2014, the Company, Cargill, Incorporated, and CHS, Inc. completed the formation of Ardent Mills. In connection with the closing, we contributed all of the assets of ConAgra Mills, including $49.0 million of cash, to Ardent Mills, we received a 44% ownership interest in Ardent Mills, and Ardent Mills distributed $402.9 million to us in cash as a return of capital, subject to working capital adjustments. The contribution of the assets of ConAgra Mills in exchange for a non-controlling interest in the newly formed joint venture is required to be accounted for at fair value, and accordingly, we recognized a gain of $624.8 million ($381.2 million after-tax) in the first quarter of fiscal 2015 in income from discontinued operations, to reflect the excess of the fair value of our interest over its carrying value at the time of the transfer. As part of the formation of Ardent Mills flour milling joint venture, in the fourth quarter of fiscal 2014, pursuant to an agreement with the U.S. Department of Justice, we sold three flour milling facilities to Miller Milling Company LLC for total cash consideration of $163.0 million. In the first quarter of fiscal 2015, we used the net cash proceeds from the Ardent Mills transaction to repay debt. The operating results of our milling business,

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including the disposition of three mills aforementioned, are included as discontinued operations within our Condensed Consolidated Statement of Earnings. The related assets and liabilities have been reclassified as assets and liabilities held for sale within our Condensed Consolidated Balance Sheet for the period presented prior to divestiture. We expect to make adjustments to these amounts for final working capital adjustments in the second quarter of fiscal 2015.

Restructuring Plans

We continue to execute a plan for the integration of Ralcorp Holdings, Inc. ("Ralcorp"), the optimization of the entire Company's supply chain network and improvement of selling, general and administrative effectiveness and efficiencies, which we refer to as the Supply Chain and Administrative Efficiency Plan (the "SCAE Plan"). As a part of this SCAE Plan, we expect to take actions to, among other things, continue the ongoing integration and restructuring of the operations of Ralcorp, optimize manufacturing assets, optimize the Company's dry distribution and mixing centers, improve operational effectiveness, and reduce overall costs in the Company's administrative areas. Although we remain unable to make good faith estimates relating to the entire SCAE Plan, we are reporting on actions initiated through the end of the first quarter of fiscal 2015, including the estimated amounts or range of amounts for each major type of costs expected to be incurred, and the charges that have resulted or will result in cash outflows. As of the date of this report, our Board of Directors has approved the incurrence of up to $325.0 million of expenses in connection with the SCAE Plan. We have incurred or expect to incur approximately $219.2 million of charges for actions identified to date under the SCAE plan. In the first quarter of fiscal 2015 and 2014, we recognized charges of $21.1 million and $7.3 million, respectively, in relation to the SCAE Plan.

SEGMENT REVIEW

We report our operations in three reporting segments: Consumer Foods, Commercial Foods, and Private Brands.

Consumer Foods

The Consumer Foods reporting segment includes branded food sold in various retail channels primarily in North America. Our food products are found in a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) throughout grocery and convenience stores across frozen, refrigerated, and shelf-stable temperature classes.

Commercial Foods

The Commercial Foods reporting segment includes commercially branded and private branded food and ingredients, which are sold primarily to commercial, foodservice, food manufacturing, and industrial customers. The segment's primary food items include: frozen potato and sweet potato items and a variety of vegetable, spice, and frozen bakery goods which are sold under brands such as Lamb Weston® and Spicetec Flavors & Seasonings®.

Private Brands

The Private Brands reporting segment principally includes private brand and customized food products which are sold in various retail channels, primarily in North America. The products include a variety of categories including: cereal products, snacks, sauces and spreads, pasta, and frozen bakery products.

Presentation of Derivative Gains (Losses) from Economic Hedges of Forecasted Cash Flows in Segment Results

Derivatives used to manage commodity price risk and foreign currency risk are not designated for hedge accounting treatment. We believe these derivatives provide economic hedges 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 is included in earnings.

The following table presents the net derivative gains (losses) from economic hedges of forecasted commodity consumption and the foreign currency risk of certain forecasted transactions, under this methodology:

($ in millions)	Thirteen weeks ended August 24, 2014	August 25, 2013
Net derivative losses incurred	$(38.3)	$(18.1)
Less: Net derivative gains allocated to reporting segments	12.0	2.8
Net derivative losses recognized in general corporate expenses	$(50.3)	$(20.9)
Net derivative gains allocated to Consumer Foods	$3.7	$1.9
Net derivative gains allocated to Commercial Foods	3.1	1.7
Net derivative gains (losses) allocated to Private Brands	5.2	(0.8)
Net derivative gains included in segment operating profit	$12.0	$2.8

As of August 24, 2014, the cumulative amount of net derivative losses from economic hedges that had been recognized in general corporate expenses and not yet allocated to reporting segments was $23.4 million. This amount reflected net losses of $38.3 million incurred during the thirteen weeks ended August 24, 2014, as well as net gains of $14.9 million incurred prior to fiscal 2015. Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify to segment operating results losses of $20.7 million in fiscal 2015 and losses of $2.7 million to segment operating results in fiscal 2016 and thereafter, respectively.

Net Sales

($ in millions) Reporting Segment	Net Sales Thirteen weeks ended August 24, 2014	August 25, 2013	% Inc (Dec)
Consumer Foods	$1,632.3	$1,649.4	(1)%
Commercial Foods	1,088.3	1,068.9	2 %
Private Brands	980.4	997.5	(2)%
Total	$3,701.0	$3,715.8	— %

Net sales for the first quarter of fiscal 2015 were $3.70 billion, a decrease of $14.8 million, from the first quarter of fiscal 2014.

Consumer Foods net sales for the first quarter of fiscal 2015 were $1.63 billion, a decrease of $17.1 million, or 1%, compared to the first quarter of fiscal 2014. Results for the first quarter of fiscal 2015 reflected slightly lower volume performance (less than 0.5%) and price/mix, and no significant impact from foreign exchange.

Sales of products associated with some of our significant brands, including Act II®, Banquet®, Bertolli®, David's®, Hebrew National®, Hunt's®, Marie Callender's®, Pam®, Reddi-wip®, and Slim Jim®, grew in the first quarter of fiscal 2015, as compared to the first quarter of fiscal 2014. Significant brands whose products experienced sales declines in the first quarter of fiscal 2015 include Blue Bonnett®, Chef Boyardee®, Egg Beaters®, Healthy Choice®, Orville Redenbacher's®, Peter Pan®, Snack Pack®, Van Camp's®, and Wesson®.

Commercial Foods net sales were $1.09 billion for the first quarter of fiscal 2015, an increase of $19.4 million, or 2%, compared to the first quarter of fiscal 2014. Results for the first quarter of fiscal 2015 reflected a volume increase of 3%, offset by a 1% decrease in price/mix. Our Lamb Weston specialty potato products business net sales increased 3% due to an increase in volumes of 4%, partially offset by a decrease in price/mix. The increase in volumes was driven by strong performance in the Lamb Weston foodservice channel. Sales for the segment's other reporting units did not change significantly.

Private Brands net sales were $980.4 million for the first quarter of fiscal 2015, a decrease of $17.1 million, or 2%, compared to the first quarter of fiscal 2014. The decrease was a result of a 3% decrease in volume, partially offset by a 1% increase in price/mix. The decreases in Private Brands net sales in the first quarter of fiscal 2015 reflected pricing concessions made in fiscal 2014 in light of customer service execution issues, offset by changes in mix of product lines.

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Selling, General and Administrative ("SG&A") Expenses (Includes general corporate expenses)

SG&A expenses totaled $492.0 million for the first quarter of fiscal 2015, a decrease of $46.1 million, as compared to the first quarter of fiscal 2014. SG&A expenses for the first quarter of fiscal 2015 reflected the following:

- a decrease in advertising and promotion spending of $32.6 million,
- charges of $24.6 million related to early extinguishment of debt as a result of the payoff of the Term Loan Facility and the repurchase of certain senior notes,
- expenses of $20.5 million in connection with our restructuring plans,
- a decrease in salaries and wages of $17.5 million, in connection with our efficiency and effectiveness initiatives,
- a benefit of $5.8 million related to the reduction of the legal accrual for pending matters associated with the 2007 peanut butter recall,
- a charge of $3.7 million in connection with a legal matter, and
- $2.2 million in support of our integration of the former Ralcorp business.

SG&A expenses for the first quarter of fiscal 2014 included expenses of $16.6 million in support of our integration of the former Ralcorp business, expenses of $9.2 million in connection with our restructuring plans, and transaction-related costs of $4.2 million.

Operating Profit (Earnings before general corporate expenses, interest expense, net, income taxes, and equity method investment earnings)

($ in millions) Reporting Segment	Operating Profit Thirteen weeks ended August 24, 2014	August 25, 2013	% Inc (Dec)
Consumer Foods	$190.0	$165.0	15 %
Commercial Foods	121.1	137.1	(12)%
Private Brands	41.9	65.5	(36)%

Consumer Foods operating profit for the first quarter of fiscal 2015 was $190.0 million, an increase of $25.0 million, or 15%, compared to the first quarter of fiscal 2014. Gross profits were $18.3 million lower in the first quarter of fiscal 2015 than in the first quarter of fiscal 2014. The lower net sales for the quarter were more than offset by a significant decrease in advertising and promotion expenses of $30.0 million. Marketing investment is expected to increase as the fiscal year progresses, reflecting the timing of certain aspects of ongoing brand initiatives. Charges totaling $9.4 million related to our restructuring plans also impacted Consumer Foods results in the first quarter of fiscal 2015, compared to $1.2 million in the first quarter of fiscal 2014.

For the first quarter of fiscal 2015, operating profit for the Commercial Foods segment was $121.1 million, a decrease of $16.0 million, or 12%, from the first quarter of fiscal 2014. Gross profits in the Commercial Foods segment were $14.9 million lower in the first quarter of fiscal 2015 than in the first quarter of fiscal 2014. The decrease in operating profit for the first quarter of fiscal 2015 was driven by lower gross profit in the Lamb Weston specialty potato operations due to a less profitable sales mix and higher costs related to poor quality raw potatoes affecting plant recovery and throughputs. The business will start to process a new potato crop in the second quarter of fiscal 2015. Commercial Foods operating profit in the first quarter of fiscal 2015 also included $4.3 million of charges related to the execution of our restructuring plans.

Private Brands operating profit for the first quarter of fiscal 2015 was $41.9 million, a decrease of $23.6 million, or 36%, compared to the first quarter of fiscal 2014. Gross profits were $25.2 million lower in the first quarter of fiscal 2015 than in the first quarter of fiscal 2014. The decreases were driven by the impact of lower net sales, discussed above, and higher operating costs associated with business transition. Private Brands operating profit in the first quarter of fiscal 2015 also included $5.4 million of charges related to the execution of our restructuring plans.

Interest Expense, Net

Net interest expense was $83.7 million and $95.8 million for the first quarter of fiscal 2015 and 2014, respectively. The decrease reflects the repayment of debt.

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Income Taxes
In the first quarter of fiscal 2015 and 2014, our income tax expense was $42.5 million and $28.9 million, respectively. The effective tax rate was approximately 28% and 18% for the first quarter of fiscal 2015 and 2014, respectively. The effective tax rate for the first quarter of fiscal 2015 reflects the resolution of uncertain tax positions. The low effective tax rate for the first quarter of fiscal 2014 was primarily due to a change in estimate related to the tax methods used for certain international sales, a change in deferred state tax rates relating to the integration of Ralcorp activity for tax purposes, and the settlement of a tax issue in Mexico that was previously reserved.
We expect our effective tax rate for the full fiscal year of 2015 to be approximately 32% to 34%.
Equity Method Investment Earnings
Equity method investment earnings were $25.6 million ($25.3 million in the Commercial Foods segment and $0.3 million in the Consumer Foods segment) and $4.1 million ($3.7 million in the Commercial Foods segment and $0.4 million in the Consumer Foods segment) for the first quarters of fiscal 2015 and 2014, respectively. The increase in the first quarter of fiscal 2015 compared to the first quarter of 2014 reflects the earnings from the Ardent Mills joint venture as well as higher profits for an international potato joint venture. The earnings from the Ardent Mills joint venture reflect results for two months of operations, as we recognize earnings on a one-month lag, due to differences in fiscal year periods.
Results of Discontinued Operations
Our discontinued operations generated after-tax income of $373.3 million and $13.8 million for the first quarters of fiscal 2015 and 2014, respectively. The results of discontinued operations for the first quarter of fiscal 2015 include a pre-tax gain of $624.8 million ($381.2 million after-tax) recognized on the formation of the Ardent Mills joint venture.
Earnings Per Share
Diluted earnings per share in the first quarter of fiscal 2015 were $1.12, including $0.25 per diluted share from continuing operations and $0.87 per diluted share from discontinued operations. Diluted earnings per share in the first quarter of fiscal 2014 were $0.34, including $0.30 per diluted share from continuing operations and $0.04 per diluted share from discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES
Sources of Liquidity and Capital
Our primary financing objective is to maintain a prudent capital structure that provides us flexibility to pursue our growth objectives. If necessary, we use short-term debt principally to finance ongoing operations, including our seasonal requirements for working capital (accounts receivable, prepaid expenses and other current assets, and inventories, less accounts payable, accrued payroll, and other accrued liabilities), and a combination of equity and long-term debt to finance both our base working capital needs and our non-current assets. We are committed to maintaining an investment grade credit rating.
At August 24, 2014, we had a $1.5 billion revolving credit facility. The facility has historically been used principally as a back-up facility for our commercial paper program. As of August 24, 2014, there were no outstanding borrowings under the facility. The facility requires that our consolidated funded debt not exceed 70% of our consolidated capital base in the four quarters commencing on January 29, 2014 and 65% thereafter, and that our fixed charges coverage ratio be greater than 1.75 to 1.0. As of August 24, 2014, we were in compliance with these financial covenants.
In January 2013, we borrowed $1.5 billion under a term loan facility ("Term Loan Facility") as part of the financing used to acquire Ralcorp. As of August 24, 2014, we had no remaining balance outstanding under the Term Loan Facility as we repaid the $900.0 million remaining principal balance and associated accrued interest during the first quarter of fiscal 2015, and we terminated the Term Loan Facility. We were allowed to prepay borrowings without premium or penalty.
On July 21, 2014, we issued floating rate senior unsecured notes in the aggregate principal amount of $550.0 million due July 21, 2016. The notes carry an interest rate equal to the three-month LIBOR plus 0.37%. The net proceeds were used to repay $225.0 million aggregate principal amount of senior notes due 2023, $200.0 million aggregate

principal amount of senior notes due 2043, $25.0 million aggregate principal amount of senior notes due 2019, $25.0 million aggregate principal amount of senior notes due 2018, and $25.0 million aggregate principal amount of senior notes due 2017, in each case prior to maturity in a tender offer, and reduce our commercial paper balances.

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As of August 24, 2014, we had $545.2 million outstanding under our commercial paper program. The highest level of borrowings under the commercial paper program during the first quarter of fiscal 2015 was $624.7 million. As of May 25, 2014, we had $137.0 million in borrowings under our commercial paper program.

As of the end of the first quarter of fiscal 2015, our senior long-term debt ratings were all investment grade. A significant downgrade in our credit ratings would not affect our ability to borrow amounts under the revolving credit facility, although borrowing costs would increase. A downgrade of our short-term credit ratings would impact our ability to borrow under our commercial paper program by negatively impacting borrowing costs and causing shorter durations, as well as making access to commercial paper more difficult.

We repurchase our shares of common stock from time to time after considering market conditions and in accordance with repurchase limits authorized by our Board of Directors. In December 2011, the Company's Board of Directors approved a $750.0 million increase to our share repurchase authorization. Under the share repurchase authorization, we may repurchase our shares periodically over several years, depending on market conditions and other factors, and may do so in open market purchases or privately negotiated transactions. The authorization has no time limit and may be suspended or discontinued at any time. We did not repurchase any shares of our common stock under this program during the first quarter of fiscal 2015. The Company's total remaining share repurchase authorization as of August 24, 2014 was $181.9 million.

In the first quarter of fiscal 2015, we received $516.9 million in cash (net of $49.0 million contributed to Ardent Mills) upon the formation of Ardent Mills, which included $163.0 million associated with the sale of three flour milling facilities in the fourth quarter of fiscal 2014.

Cash Flows

During the first quarter of fiscal 2015, we used $49.4 million of cash, which was the net result of $233.6 million generated from operating activities, $331.6 million generated from investing activities, $613.7 million used in financing activities, and a decrease of $0.9 million in cash due to the effect of changes in foreign currency exchange rates.

Cash generated from operating activities of continuing operations totaled $226.2 million in the first quarter of fiscal 2015, as compared to $145.8 million generated in the first quarter of fiscal 2014. We paid approximately $86.0 million less for annual incentive compensation in the first quarter of fiscal 2015 (earned in fiscal 2014) than in the first quarter of fiscal 2014 (earned in fiscal 2013). During the first quarter of fiscal 2015, our income tax payments were approximately $47.4 million more than those made in the first quarter of fiscal 2014 due primarily to prior year income tax deductions related to the Ralcorp debt exchange and Ralcorp loss carry forwards from fiscal 2013. Cash outflows for advertising and promotions, as well as slotting fees, were less than the prior year due to planned spending reductions and fewer new product introductions. We spent less cash in the first quarter of fiscal 2015 than in the first quarter of fiscal 2014 for inventory associated with seasonal items and tomato fresh pack. Additionally, operating cash flows in the first quarter of fiscal 2014 included severance, incentives, and other benefits associated with the Ralcorp acquisition that were accrued at the time of the acquisition Ralcorp. Cash generated from operating activities of discontinued operations were $7.4 million and $20.3 million in the first quarter of fiscal 2015 and 2014, respectively. The reduced contribution of cash from operating activities of discontinued operations reflects the timing of the disposition.

Cash generated from investing activities totaled $331.6 million in the first quarter of fiscal 2015 versus cash used of $177.6 million in the first quarter of fiscal 2014. Investing activities of continuing operations in the first quarter of fiscal 2015 consisted primarily of $402.9 million in cash received from Ardent Mills in connection with the formation of that joint venture, capital expenditures of $111.7 million, and the purchase of a potato manufacturer in China for $75.4 million net of cash acquired plus assumed liabilities. Investing activities of continuing operations in the first quarter of fiscal 2014 consisted primarily of capital expenditures of $174.0 million. Cash generated from investing activities of discontinued operations in the first quarter of fiscal 2015 totaled $114.0 million resulting from receipt of $163.0 million cash associated with the sale of three flour milling facilities at the end of fiscal 2014, partially offset by $49.0 million cash contributed to Ardent Mills upon the formation of the joint venture.

Cash utilized for financing activities totaled $613.7 million in the first quarter of fiscal 2015 compared to cash generated from financing activities of $22.6 million in the first quarter of fiscal 2014. In the first quarter of fiscal 2015, we used over $500.0 million to reduce our overall debt. This consisted of the repayment of $1.49 billion of long-term debt, partially financed by the issuance of $550.0 million aggregate principal amount of floating rate notes and an increase in our short-term borrowings of $407.3 million, primarily commercial paper. Cash flows from financing activities in the first quarter of fiscal 2014 included cash generated from the increase in commercial paper of $97.2 million. Dividends paid during the first quarter of fiscal 2015 and 2014 were $105.5 million and $104.8 million, respectively. In the first quarter of fiscal 2014, we repurchased $30.9 million of our common stock as part of our share repurchase program. No share repurchases occurred in the first quarter of fiscal 2015. Proceeds from employee stock option exercises were $27.1 million and $62.9 million in the first quarter of fiscal 2015 and 2014, respectively.

The Company had cash and cash equivalents of $133.7 million at August 24, 2014 and $141.3 million at May 25, 2014, of which $107.3 million at August 24, 2014 and $104.5 million at May 25, 2014 was held in foreign countries. During the first fiscal quarter of 2015, domestic entities repaid $37.8 million borrowed from certain of the Company's foreign subsidiaries during the fourth quarter of fiscal 2014. The Company makes an assertion regarding the amount of earnings intended for permanent reinvestment outside the United States, with the balance available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the subsidiaries' operational activities and future foreign investments. No related tax liability has been accrued as of August 24, 2014. At August 24, 2014, management does not intend to permanently repatriate additional foreign cash. Any future decision to repatriate foreign cash could result in an adjustment to the deferred tax liability after considering available foreign tax credits and other tax attributes. It is not practicable to determine the amount of any such deferred tax liability at this time.

We estimate our capital expenditures in fiscal 2015 will be approximately $600 million.

Management believes that existing cash balances, cash flows from operations, existing credit facilities, and access to capital markets will provide sufficient liquidity to meet our repayment of debt, working capital needs, planned capital expenditures, and payment of anticipated quarterly dividends for at least the next twelve months.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements (e.g., leases accounted for as operating leases) where sound business principles warrant their use. We also periodically enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. These are described further in “Obligations and Commitments,” below.

Variable Interest Entities Not Consolidated

We have variable interests in certain entities that we have determined to be variable interest entities, but for which we are not the primary beneficiary. We do not consolidate the financial statements of these entities.

We hold a 50.0% interest in Lamb Weston RDO, a potato processing venture. We provide all sales and marketing services to Lamb Weston RDO. We receive a fee for these services based on a percentage of the net sales of the venture. We reflect the value of our ownership interest in this venture in other assets in our Condensed Consolidated Balance Sheets, based upon the equity method of accounting. The balance of our investment was $12.2 million and $12.6 million at August 24, 2014 and May 25, 2014, respectively, representing our maximum exposure to loss as a result of our involvement with this venture. The capital structure of Lamb Weston RDO includes owners' equity of $24.4 million and term borrowings from banks of $42.8 million as of August 24, 2014. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of this venture.

We lease certain office buildings from entities that we have determined to be variable interest entities. The lease agreements with these entities include fixed-price purchase options for the assets being leased, representing our only variable interest in these lessor entities. These leases are accounted for as operating leases, and accordingly, there are no material assets or liabilities associated with these entities included in our Condensed Consolidated Balance Sheets. We have no material exposure to loss from our variable interests in these entities. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of these entities. In making this determination, we have considered, among other items, the terms of the lease agreements, the expected remaining useful lives of the assets leased, and the capital structure of the lessor entities.

OBLIGATIONS AND COMMITMENTS

As part of our ongoing operations, we enter into arrangements that obligate us to make future payments under contracts such as lease agreements, debt agreements, and unconditional purchase obligations (i.e., obligations to transfer funds in the future for fixed or minimum quantities of goods or services at fixed or minimum prices, such as "take-or-pay" contracts). The unconditional purchase obligation arrangements are entered into in our normal course of business in order to ensure adequate levels of sourced product are available. Of these items, debt, notes payable, and capital lease obligations, which totaled $8.4 billion as of August 24, 2014, were recognized as liabilities in our Condensed Consolidated Balance Sheets. Operating lease obligations and unconditional purchase obligations, which totaled $2.6 billion as of August 24, 2014, were not recognized as liabilities in our Condensed Consolidated Balance Sheets, in accordance with generally accepted accounting principles.

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A summary of our contractual obligations as of August 24, 2014 was as follows:

	Payments Due by Period (in millions)				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt	$7,733.2	$0.7	$2,035.8	$1,700.0	$3,996.7
Capital lease obligations	77.0	8.6	14.9	9.8	43.7
Operating lease obligations	517.3	82.4	142.1	98.5	194.3
Purchase obligations[1]	2,069.4	1,910.0	94.4	59.2	5.8
Notes payable	565.2	565.2	—	—	—
Total	$10,962.1	$2,566.9	$2,287.2	$1,867.5	$4,240.5

[1] Amount includes open purchase orders and agreements, some of which are not legally binding and/or may be cancellable. Such agreements are generally settleable in the ordinary course of business in less than one year.

We are also contractually obligated to pay interest on our long-term debt and capital lease obligations. The weighted average coupon interest rate of the long-term debt obligations outstanding as of August 24, 2014 was approximately 4.1%.

The operating lease obligations noted in the table above have not been reduced by non-cancellable sublease rentals of $31.6 million.

We own a 49.99% interest in Lamb Weston BSW, LLC ("Lamb Weston BSW"), a potato processing venture with Ochoa Ag Unlimited Foods, Inc. ("Ochoa"). We provide all sales and marketing services to Lamb Weston BSW. Under certain circumstances, we could be required to compensate Ochoa for lost profits resulting from significant production shortfalls ("production shortfalls"). Commencing on June 1, 2018, or on an earlier date under certain circumstances, we have a contractual right to purchase the remaining equity interest in Lamb Weston BSW from Ochoa (the "call option"). We are currently subject to a contractual obligation to purchase all of Ochoa's equity investment in Lamb Weston BSW at the option of Ochoa (the "put option"). The purchase prices under the call option and the put option (the "options") are based on the book value of Ochoa's equity interest at the date of exercise, as modified by an agreed-upon rate of return for the holding period of the investment balance. The agreed-upon rate of return varies depending on the circumstances under which any of the options are exercised. As of August 24, 2014, the price at which Ochoa had the right to put its equity interest to us was $39.8 million. This amount, which is presented within other noncurrent liabilities in our Condensed Consolidated Balance Sheets, is not included in the "Contractual Obligations" table above as the payment is contingent upon the exercise of the put option by Ochoa, and the eventual occurrence and timing of such exercise is uncertain.

As part of our ongoing operations, we also enter into arrangements that obligate us to make future cash payments only upon the occurrence of a future event (e.g., guarantees of debt or lease payments of a third party should the third party be unable to perform). In accordance with generally accepted accounting principles, the following commercial commitments are not recognized as liabilities in our Condensed Consolidated Balance Sheets. A summary of our commitments, including commitments associated with equity method investments, as of August 24, 2014 was as follows:

	Amount of Commitment Expiration Per Period (in millions)				
Other Commercial Commitments	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Guarantees	$88.2	$62.1	$7.5	$8.4	$10.2
Standby repurchase obligations	4.3	2.5	0.5	0.5	0.8
Other commitments	5.8	5.8	—	—	—
Total	$98.3	$70.4	$8.0	$8.9	$11.0

In certain limited situations, we will guarantee an obligation of an unconsolidated entity. We guarantee certain leases and other commercial obligations resulting from the 2002 divestiture of our fresh beef and pork operations. The remaining terms of these arrangements do not exceed two years and the maximum amount of future payments we have guaranteed was $4.7 million as of August 24, 2014.

We are a party to various potato supply agreements. Under the terms of certain such potato supply agreements, we have guaranteed repayment of short-term bank loans of the potato suppliers, under certain conditions. At August 24, 2014, the amount of supplier loans effectively guaranteed by us was $56.7 million, included in the table above. We have not established a liability for these guarantees, as we have determined that the likelihood of our required performance under the guarantees is remote.

We were a party to a supply agreement with an onion processing company where we had guaranteed, under certain conditions, repayment of a secured loan (the "Secured Loan") of this onion products supplier to the supplier's lender. The amount of our guarantee was $25.0 million. During the fourth quarter of fiscal 2012, we received notice from the lender that the supplier had defaulted on the Secured Loan and we exercised our option to purchase the Secured Loan from the lender for $40.8 million, thereby assuming first-priority secured rights to the underlying collateral for the amount of the Secured Loan, and cancelling our guarantee. The supplier filed for bankruptcy during the fourth quarter of fiscal 2012 and during the second quarter of fiscal 2013, we acquired ownership and all rights to the underlying collateral, consisting of agricultural land and an onion processing facility. During the third quarter of fiscal 2013, we recognized an impairment charge of $10.2 million in our Commercial Foods segment to reduce the carrying amount of these assets to their estimated fair value based upon updated appraisals. During the second quarter of fiscal 2014, we recognized an additional impairment charge of $8.9 million in our Commercial Foods segment to reduce the carrying amount of the processing facility to its estimated fair value based upon expected sales proceeds. In the fourth quarter of fiscal 2014, we sold the land and recognized a gain of $5.1 million in our Commercial Foods segment. Based on our estimate of the value of the processing facility, we expect to recover the remaining carrying value through our sale of this asset.

Federal income tax credits were generated related to our sweet potato production facility in Delhi, Louisiana. Third parties invested in certain of these income tax credits. We have guaranteed these third parties the face value of these income tax credits over their statutory lives, through fiscal 2017, in the event that the income tax credits are recaptured or reduced. The face value of the income tax credits was $26.7 million as of August 24, 2014. We believe the likelihood of the recapture or reduction of the income tax credits is remote, and therefore we have not established a liability in connection with this guarantee.

The obligations and commitments tables above do not include any reserves for uncertainties in income taxes, as we are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes. The liability for gross unrecognized tax benefits at August 24, 2014 was $75.1 million. The net amount of unrecognized tax benefits at August 24, 2014, that, if recognized, would impact our effective tax rate was $44.1 million. Recognition of these tax benefits would have a favorable impact on our effective tax rate.

CRITICAL ACCOUNTING ESTIMATES

A discussion of our critical accounting estimates can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks affecting us are exposures to price fluctuations of commodity and energy inputs, interest rates, and foreign currencies.

Other than the changes noted below, there have been no material changes in our market risk during the thirteen weeks ended August 24, 2014. For additional information, refer to the "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

Commodity Market Risk

We purchase commodity inputs such as wheat, corn, oats, soybean meal, soybean oil, meat, dairy products, sugar, natural gas, electricity, and packaging materials to be used in our operations. These commodities are subject to price fluctuations that may create price risk. We enter into commodity hedges to manage this price risk using physical forward contracts or derivative instruments. We have policies governing the hedging instruments our businesses may use. These policies include limiting the dollar risk exposure for each of our businesses. We also monitor the amount of associated counter-party credit risk for all non-exchange-traded transactions.

Interest Rate Risk

During fiscal 2014, we entered into interest rate swap contracts to hedge the fair value of certain of our senior long-term debt instruments maturing in fiscal 2019 and 2020. The net notional amount of these interest rate derivatives at August 24, 2014 was $500.0 million, $250.0 million for each maturity. The maximum potential loss associated with these interest rate swap contracts from a hypothetical 1% increase in interest rates is approximately $28.3 million. Any such gain or loss, to the extent the hedge is effective, are offset by fair value adjustments to the debt instruments being hedged.

The carrying amount of long-term debt (including current installments) was $7.9 billion as of August 24, 2014. Based on current market rates, the fair value of this debt at August 24, 2014 was estimated at $8.6 billion. As of August 24, 2014, a 1% increase in interest rates would decrease the fair value of our fixed rate debt by approximately $515.2 million, while a 1% decrease in interest rates would increase the fair value of our fixed rate debt by approximately $584.5 million.

Foreign Currency Risk

In order to reduce exposures for our processing activities related to changes in foreign currency exchange rates, we may enter into forward exchange or option contracts for transactions denominated in a currency other than the functional currency for certain of our operations. This activity primarily relates to economically hedging against foreign currency risk in purchasing inventory and capital equipment, sales of finished goods, and future settlement of foreign denominated assets and liabilities.

Value-at-Risk (VaR)

We employ various tools to monitor our derivative risk, including value-at-risk ("VaR") models. We perform simulations using historical data to estimate potential losses in the fair value of current derivative positions. We use price and volatility information for the prior 90 days in the calculation of VaR that is used to monitor our daily risk. The purpose of this measurement is to provide a single view of the potential risk of loss associated with derivative positions at a given point in time based on recent changes in market prices. Our model uses a 95% confidence level. Accordingly, in any given one day time period, losses greater than the amounts included in the table below are expected to occur only 5% of the time. We include commodity swaps, futures, and options and foreign exchange forwards, swaps, and options in this calculation. The following table provides an overview of our average daily VaR for our energy, agriculture, foreign exchange, and other commodities over the thirteen week period ending August 24, 2014 and August 25, 2013. Other commodities below consist primarily of forward and option contracts for a commodities index, the market price of which is closely correlated with that of our commodity inputs. This index includes items such as agricultural commodities, energy commodities, and metals. The other commodities category below may also include items such as packaging and/or livestock.

In Millions	Fair Value Impact	
	Average During Thirteen Weeks Ended August 24, 2014	Average During Thirteen Weeks Ended August 25, 2013
Energy commodities	$1.3	$1.3
Agriculture commodities	$2.2	$2.3
Other commodities	$1.2	$3.5
Foreign exchange	$0.2	$1.4

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of August 24, 2014. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated any change in the Company's internal control over financial reporting that occurred during the quarter covered by this report and determined that there was no change in our internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information supplements and amends the discussion set forth under Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

As previously disclosed, in April 2010, an accidental explosion occurred at our previously owned flour milling facility in Chester, Illinois. Two employees of a subcontractor and one employee of the primary contractor, Westside Salvage ("Westside"), on the site at the time of the accident suffered injuries. Suit was initiated against Westside and the Company for personal injury claims. During the first quarter of fiscal 2013, a jury in Federal Court sitting in East St. Louis, Illinois, returned a verdict against the Company and Westside and in favor of the three employees. The verdict was in the amount of $77.5 million in compensatory damages apportioned between the Company and Westside and $100.0 million in punitive damages against the Company. Post-trial motions were filed by the Company and the trial court reduced the punitive award by approximately $7 million. We filed an appeal with the Seventh Federal Circuit Court of Appeals on the verdict and the damages in the third quarter of fiscal 2013. The appeal was argued in the second quarter of fiscal 2014 and on September 9, 2014, the Court of Appeals rendered a unanimous decision reversing the judgment against the Company in its entirety. The decision is potentially subject to further appeal. In the event of an appeal, we will defend this action vigorously and any exposure from an adverse ruling on appeal is expected to be limited to the applicable insurance deductible.

We are also a party to a number of lawsuits and claims arising out of the operation of our business, including lawsuits and claims related to the February 2007 recall of our peanut butter products. After taking into account liabilities recorded for these matters, we believe the ultimate resolution of such matters should not have a material adverse effect on our financial condition, results of operations, or liquidity.

For more information regarding legal matters, please refer to Part I, Item 3 in the Company's Annual Report on Form 10-K for the year ended May 25, 2014, Note 16 to the Consolidated Financial Statements included therein and Note 13 to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

A discussion of our risk factors can be found in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. There were no material changes to the previously disclosed risk factors during the first quarter of fiscal 2015.

ITEM 6. EXHIBITS

All exhibits as set forth on the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

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

CONAGRA FOODS, INC.

By: /s/ JOHN F. GEHRING
John F. Gehring
Executive Vice President and Chief Financial Officer

By: /s/ ROBERT G. WISE
Robert G. Wise
Senior Vice President and Corporate Controller

Dated this 29th day of September, 2014.

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EXHIBIT INDEX

All documents referenced below were filed pursuant to the Securities Exchange Act of 1934 by ConAgra Foods, Inc. (file number 001-07275), unless otherwise noted.

EXHIBIT	DESCRIPTION
3.1	ConAgra Foods' Certificate of Incorporation, as restated, incorporated herein by reference to Exhibit 3.1 of ConAgra Foods' current report on Form 8-K filed December 2, 2005
3.2	Amended and Restated By-Laws of ConAgra Foods, Inc., as Amended, incorporated herein by reference to Exhibit 3.1 of ConAgra Foods' current report on Form 8-K filed December 3, 2007
4.1	Indenture, dated as of October 8, 1990, between ConAgra Foods, Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. and The Chase Manhattan Bank (National Association)), as trustee, incorporated by reference to Exhibit 4.1 of ConAgra Foods' Registration Statement on Form S-3 (Registration File No. 033-36967)
12	Statement regarding computation of ratio of earnings to fixed charges
31.1	Section 302 Certificate of Chief Executive Officer
31.2	Section 302 Certificate of Chief Financial Officer
32.1	Section 906 Certificates
101.1	The following materials from ConAgra Foods' Quarterly Report on Form 10-Q for the quarter ended August 24, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements, and (vi) document and entity information.
	Pursuant to Item 601(b)(4) of Regulation S-K, certain instruments with respect to ConAgra Foods' long-term debt are not filed with this Form 10-Q. ConAgra Foods will furnish a copy of any such long-term debt agreement to the Securities and Exchange Commission upon request.

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