CONAGRA FOODS INC /DE/
Form 10-Q/A
April 29, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended November 28, 2004

OR

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

For the transition period from to

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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o

Number of shares outstanding of issuer s common stock, as of December 24, 2004, was 515,500,087.

EXPLANATORY NOTE

This Amendment No. 1 to this Quarterly Report on Form 10-Q/A (Form 10-Q/A) is being filed in order to correct the previously issued historical consolidated financial statements of ConAgra Foods, Inc. (the company) as of November 28, 2004, May 30, 2004 and November 23, 2003 and for the quarterly periods ended November 28, 2004 and November 23, 2003, initially filed with the Securities and Exchange Commission (the SEC) on January 6, 2005, for errors in previously reported amounts related to income tax matters. The company is filing contemporaneously with this Form 10-Q/A its restated Form 10-K/A for fiscal 2004 and Form 10-Q/A for the first quarter of fiscal 2005. The correction of the errors results in an aggregate net increase in income tax expense of approximately $105 million (including approximately $2 million reflected in results from discontinued operations) for fiscal years 2004, 2003, and 2002 and the first two quarters of fiscal 2005 and an aggregate net decrease in income tax expense of approximately $46 million for years prior to fiscal 2002. The company estimates additional federal and state cash payments in the range of $70 million to $90 million will be made in the near term in connection with these matters. The restatement adjustments result in a $48 million reduction of ending stockholders equity as of November 28, 2004.

During fiscal 2005, the company has systematically conducted reviews of financial controls as a part of its Sarbanes-Oxley 404 pre-certification process and in connection with pending tax audits, as well as part of operational improvement efforts by new financial management. During the third quarter of fiscal 2005, those reviews resulted in the discovery of errors relating to accounting for income taxes, as described below:

The company made errors in its fiscal 1997 tax return in the calculation of tax basis upon the formation of a pork subsidiary. Additional less significant tax basis calculation errors also occurred. Upon the sale of the beef and pork businesses in fiscal 2003, as a result of the basis calculation errors, the company incorrectly calculated a capital loss and recognized a deferred tax asset with an offsetting valuation allowance. The company incorrectly recognized an income tax benefit when it applied the erroneous capital loss carryforward against capital gain transactions in fiscal 2004.

The company made historical errors in accounting for income taxes for foreign operations, which resulted in errors in the amount of foreign tax credit benefits recorded and the calculation of tax expense on foreign source income and gains for tax purposes on foreign dispositions. The company also incorrectly calculated the amount of deferred tax assets and related valuation allowance for the foreign tax credit carryforwards available in fiscal 2003, 2004 and 2005.

The Internal Revenue Service issued a report of its preliminary findings for its audit of the company s fiscal 2000-2002 tax returns subsequent to the end of the third quarter of fiscal 2005. In connection with this audit, the company had incorrectly recorded adjustments to the financial statements for the impact of computational errors made by the company related to its fiscal 2000-2002 tax returns.

The company also made errors in 1) recording deferred taxes resulting in net overstatement of income tax expense in years prior to fiscal 2002; 2) the calculation of fiscal 2003 and fiscal 2004 tax expense which resulted in the company recognizing tax expense or benefits related to certain transactions in the incorrect periods; and 3) calculating the reserve for state tax contingencies, principally related to years prior to fiscal 2003.

The reviews of tax matters also resulted in the correction of the gain recognized on the sale of the company s minority investment in Swift Foods, which is included in selling, general and administrative expenses in the second quarter of fiscal 2005.

The principal financial statement impact of such errors noted above is summarized as follows:

For periods prior to fiscal 2002, increased retained earnings by $45.8 million.

For fiscal 2002, increased income tax expense $11.3 million; decreased net income by $11.3 million; decreased diluted earnings per share $0.02.

For fiscal 2003, increased income tax expense $11.0 million; decreased net income by $11.0 million; decreased diluted earnings per share $0.02.

For fiscal 2004, decreased selling, general and administrative expenses $1.4 million; increased income tax expense $72.3 million; increased income from discontinued operations $2.4 million; decreased net income by $68.5 million; decreased diluted earnings per share $0.13.

For the first half of fiscal 2005, decreased selling, general and administrative expenses $10.1 million; increased income tax expense $9.0 million; decreased income from discontinued operations $4.1 million; decreased net income by $3.0 million; decreased diluted earnings per share $0.01.

The company has also changed the presentation of cash flows from discontinued operations to separately present cash flows from discontinued operations for operating, investing and financing activities for all periods presented.

The company has changed its presentation of equity method investment earnings to present such amounts below income tax expense for all periods presented. Certain other reclassifications have been made to amounts previously reported in the company s Form 10-Q for the quarterly period ended November 28, 2004 to conform with amounts reported in the company s Form 10-Q for the thirty-nine weeks ended February 27, 2005.

See Note 13 to the condensed consolidated financial statements for further information.

This Form 10-Q/A amends and restates only Items 1, 2, and 4 of Part I and Item 6 of Part II of the original filing to reflect the effects of this restatement of the company s financial statements for the periods presented. The remaining Items contained within this Amendment No. 1 on Form 10-Q/A consist of all other Items originally contained on Form 10-Q for the quarterly period ended November 28, 2004. These remaining Items are not amended hereby. Except for the forgoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the original filing, and the company has not updated the disclosures contained herein to reflect events that occurred at a later date. Accordingly, this Form 10-Q/A should be read in conjunction with company filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments of those filings.

Part I Financial Information

Item 1. Condensed Consolidated Financial Statements

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004 (As Restated, see Note 13)	November 23, 2003	November 28, 2004 (As Restated, see Note 13)	November 23, 2003
Net sales	$ 4,116.2	$ 3,804.8	$ 7,611.8	$ 7,034.2
Costs and expenses:				
Cost of goods sold	3,215.9	2,905.0	6,026.8	5,450.2
Selling, general and administrative expenses	429.4	481.2	840.4	943.8
Interest expense, net	85.8	68.2	159.2	133.6
Income from continuing operations before income taxes, equity method investment earnings and cumulative effect of change in accounting	385.1	350.4	585.4	506.6
Income tax expense	155.5	130.1	236.9	167.2
Equity method investment earnings	15.1	16.3	29.2	27.5
Income from continuing operations before cumulative effect of change in accounting	244.7	236.6	377.7	366.9
Income (loss) from discontinued operations, net of tax	(5.1)	32.2	(3.4)	71.5
Cumulative effect of change in accounting				(11.7)
Net income	$ 239.6	$ 268.8	$ 374.3	$ 426.7
Earnings per share basic				
Income from continuing operations before cumulative effect of change in accounting	$ 0.48	$ 0.45	$ 0.74	$ 0.69
Income (loss) from discontinued operations	(0.01)	0.06	(0.01)	0.13
Cumulative effect of change in accounting				(0.02)
Net income	$ 0.47	$ 0.51	$ 0.73	$ 0.80
Earnings per share diluted				
Income from continuing operations before cumulative effect of change in accounting	$ 0.47	$ 0.45	$ 0.73	$ 0.69
Income (loss) from discontinued operations	(0.01)	0.06	(0.01)	0.13
Cumulative effect of change in accounting				(0.02)
Net income	$ 0.46	$ 0.51	$ 0.72	$ 0.80

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		Twenty-six weeks ended	
	November 28, 2004	November 23, 2003	November 28, 2004	November 23, 2003
	(As Restated, see Note 13)		(As Restated, see Note 13)	
Net income	$ 239.6	$ 268.8	$ 374.3	$ 426.7
Other comprehensive income (loss):				
Net derivative adjustment, net of tax	8.9	6.2	(15.5)	22.6
Unrealized gain on available-for-sale securities, net of tax	42.2		42.4	
Currency translation adjustment	19.9	20.2	29.3	38.8
Comprehensive income	$ 310.6	$ 295.2	$ 430.5	$ 488.1

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(dollars in millions)

(unaudited)

	November 28, 2004	May 30, 2004 (As Restated, see Note 13)	November 23, 2003
ASSETS			
Current assets			
Cash and cash equivalents	$ 353.2	$ 608.6	$ 51.9
Divestiture proceeds receivable		60.3	865.5
Receivables, less allowance for doubtful accounts of $30.9, $26.5 and $31.8	1,536.6	1,324.1	1,115.4
Inventories	2,961.6	2,580.9	3,178.8
Prepaid expenses and other current assets	332.0	439.8	412.2
Current assets of discontinued operations	309.6	135.6	198.2
Total current assets	5,493.0	5,149.3	5,822.0
Property, plant and equipment	5,862.7	5,632.7	5,300.7
Less accumulated depreciation	(2,895.2)	(2,752.7)	(2,664.5)
Property, plant and equipment, net	2,967.5	2,880.0	2,636.2
Goodwill	3,812.8	3,796.6	3,804.9
Brands, trademarks and other intangibles, net	826.2	826.9	825.6
Other assets	1,101.2	1,559.4	1,441.3
Noncurrent assets of discontinued operations	5.1	10.0	39.9
	$ 14,205.8	$ 14,222.2	$ 14,569.9
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Notes payable	$ 4.4	$ 30.6	$ 100.6
Current installments of long-term debt	766.4	382.4	324.1
Accounts payable	1,161.1	940.8	1,194.5
Advances on sales	131.8	178.4	225.6
Accrued payroll	232.8	272.0	230.6
Other accrued liabilities	1,240.0	1,079.8	1,323.9
Current liabilities of discontinued operations	127.1	120.5	161.1
Total current liabilities	3,663.6	3,004.5	3,560.4
Senior long-term debt, excluding current installments	4,189.3	4,878.4	4,209.0
Subordinated debt	400.0	402.3	756.9
Preferred securities of subsidiary company			175.0
Other noncurrent liabilities	1,140.7	1,143.1	985.4
Noncurrent liabilities of discontinued operations			0.3
Total liabilities	9,393.6	9,428.3	9,687.0
Commitments and contingencies (Note 9)			
Common stockholders equity			
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 565,906,261, 565,842,299 and 565,721,475	2,829.5	2,829.2	2,828.6
Additional paid-in capital	754.5	755.7	750.3
Retained earnings	2,450.3	2,349.2	2,239.7
Accumulated other comprehensive income (loss)	76.1	19.9	(98.0)
Less treasury stock, at cost, common shares 50,907,350, 44,647,495 and 29,106,997	(1,293.7)	(1,123.8)	(690.8)
	4,816.7	4,830.2	5,029.8
	(4.5)	(36.3)	(146.9)

Less unearned restricted stock and value of 0, 1,062,793 and 5,700,217 common shares held in Employee Equity Fund						
Total common stockholders equity		4,812.2		4,793.9		4,882.9
	$	14,205.8	$	14,222.2	$	14,569.9

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

	Twenty-six weeks ended November 28, 2004 (As Restated, see Note 13)	Twenty-six weeks ended November 23, 2003
Cash flows from operating activities:		
Net income	$ 374.3	$ 426.7
Income (loss) from discontinued operations	(3.4)	71.5
Income from continuing operations	377.7	355.2
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	174.0	171.4
Gain on sale of fixed assets	(5.3)	(1.4)
Changes in amounts sold under the accounts receivable securitization, net	-	(6.1)
Cumulative effect of changes in accounting	-	11.7
Undistributed earnings of affiliates	(19.8)	(10.7)
Other items (includes pension and other postretirement benefits)	49.7	63.0
Change in operating assets and liabilities before effects of business dispositions:		
Accounts receivable	(216.9)	(315.2)
Inventory	(380.7)	(780.2)
Prepaid expenses and other current assets	78.6	218.4
Accounts payable and advances on sales	173.6	527.7
Other accrued liabilities	156.3	53.4
Net cash flows from operating activities continuing operations	387.2	287.2
Net cash flows from operating activities discontinued operations	74.6	(98.5)
Net cash flows from operating activities	461.8	188.7
Cash flows from investing activities:		
Additions to property, plant and equipment	(255.4)	(152.3)
Sale of investment in Swift Foods and UAP preferred securities	214.1	-
Sale of businesses and property, plant and equipment	25.7	11.5
Notes receivable and other items	(32.8)	7.0
Net cash flows from investing activities continuing operations	(48.4)	(133.8)
Net cash flows from investing activities discontinued operations	99.9	(30.3)
Net cash flows from investing activities	51.5	(164.1)
Cash flows from financing activities:		
Net short-term borrowings	(26.1)	99.0
Repayment of long-term debt	(321.8)	(502.4)
Repurchase of ConAgra Foods common shares	(181.4)	-
Cash dividends paid	(269.3)	(262.1)
Proceeds from exercise of employee stock options	31.0	25.1
Other items	(1.4)	(7.5)
Net cash flows from financing activities continuing operations	(769.0)	(647.9)
Net cash flows from financing activities discontinued operations	0.3	(12.9)
Net cash flows from financing activities	(768.7)	(660.8)
Net change in cash and cash equivalents	(255.4)	(636.2)
Cash and cash equivalents at beginning of period	608.6	688.1
Cash and cash equivalents at end of period	$ 353.2	$ 51.9

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

1. Accounting Policies

The company has restated certain historical results in the accompanying condensed consolidated financial statements to correct errors in previously reported amounts related to income tax matters, see Note 13.

The unaudited financial information reflects all adjustments (consisting of normal and recurring 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. 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) fiscal 2004 annual report on Form 10-K/A.

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

Basis of Consolidation The condensed consolidated financial statements include the accounts of ConAgra Foods, Inc. and all majority-owned subsidiaries. In addition, the accounts of all variable interest entities of 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.

Stock-Based Compensation The company has stockholder approved stock option plans which provide for granting of options to employees for purchase of common stock at prices equal to the fair value at the time of grant. The company accounts for its employee stock option plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* Accordingly, no stock-based compensation expense is reflected in net income for stock options granted, as options granted under these plans have an exercise price equal to the market value of the underlying common stock on the date of grant. The company issues stock under various stock-based compensation arrangements approved by stockholders, including restricted stock, phantom stock and stock issued in lieu of cash bonuses. The value of restricted and phantom stock, equal to fair value at the time of grant, is amortized as compensation expense over the vesting period. Stock issued in lieu of cash bonuses is recognized as compensation expense as earned. In addition, the company grants restricted share equivalents. The restricted share equivalents are credited with appreciation or depreciation in the company s stock during the restriction period and will be settled in cash when the restriction period ends. The company amortizes the expense associated with the restricted share equivalents over the period of restriction.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

The following table illustrates the pro forma effect on net income and earnings per share assuming the company had followed the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, for all outstanding and unvested stock options and other stock-based compensation.

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	**November 23, 2003**	**November 28, 2004**	**November 23, 2003**
Net income, as reported	$ 239.6	$ 268.8	$ 374.3	$ 426.7
Add: Stock-based employee compensation included in reported net income, net of related tax effects	3.9	3.2	7.4	7.7
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(8.2)	(7.4)	(15.9)	(16.5)
Pro forma net income	$ 235.3	$ 264.6	$ 365.8	$ 417.9
Earnings per share:				
Basic earnings per share as reported	$ 0.47	$ 0.51	$ 0.73	$ 0.80
Basic earnings per share pro forma	$ 0.46	$ 0.50	$ 0.71	$ 0.79
Diluted earnings per share as reported	$ 0.46	$ 0.51	$ 0.72	$ 0.80
Diluted earnings per share pro forma	$ 0.45	$ 0.50	$ 0.71	$ 0.79

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, if any, in the minimum pension liability. The company deems its foreign investments to be 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.

The derivative adjustment is net of income tax expense of $5.4 million for the thirteen weeks ended November 28, 2004 and an income tax benefit of $9.5 million for the twenty-six weeks ended November 28, 2004, and income tax expense of $3.8 million and $13.9 million, respectively, for the thirteen and twenty-six weeks ended November 23, 2003. The unrealized gain on available-for-sale securities is net of income tax expense of $25.9 million and $26.0 million, respectively, for the thirteen and twenty-six weeks ended November 28, 2004.

Reclassifications Certain reclassifications have been made to prior year amounts to conform to current year classifications.

Accounting Changes Effective February 22, 2004, the company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities*, as revised December 2003 (FIN No. 46R). As a result of adopting FIN No. 46R, the company has consolidated the assets and liabilities of several entities from which it leases property, plant and equipment. Certain of the entities from which the company leases various buildings are partnerships (the partnerships), the beneficial owners of which are Opus Corporation or its affiliates (Opus). A member of the company s board of directors is a beneficial owner, officer and director of Opus.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

The company has also deconsolidated ConAgra Capital, L.C., an indirectly controlled subsidiary of the company. Due to the adoption of FIN No. 46R, the company reflects in its balance sheet as of November 28, 2004: property, plant and equipment of $219 million, long-term debt of $449 million, other assets of $57 million and other noncurrent liabilities of $6 million, and as of May 30, 2004: property, plant and equipment of $221 million, long-term debt of $419 million, other assets of $46 million and other noncurrent liabilities of $25 million. None of these balances were reflected in the company s balance sheet as of November 23, 2003. Financing costs related to these leases were previously included in selling, general and administrative expenses. Effective with the adoption of FIN No. 46R, these financing costs are included in interest expense, net. The company also removed the preferred securities of a subsidiary company of $175 million upon the deconsolidation of ConAgra Capital, L.C., which securities are now included in the long-term debt balance noted above. As discussed further in Note 12, in December 2004, the company approved the redemption of these securities. The company has no other material obligations arising out of variable interests with unconsolidated entities.

If FIN No. 46R would have been in effect during the first half of fiscal 2004, net income for that period would not have been materially different from that which was previously reported.

Effective May 26, 2003, the company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, which requires the company to recognize the fair value of a liability associated with the cost the company is legally obligated to incur in order to retire an asset at some point in the future. The associated asset retirement costs are capitalized as part of the carrying amount of the associated long-lived asset. Over time, the liability will increase, reflecting the accretion of the obligation from its present value to the amount the company estimates it will pay to extinguish the liability, and the capitalized asset retirement costs will be depreciated over the useful life of the related asset. Application of this accounting standard resulted in a cumulative effect of a change in accounting that decreased net income by $11.7 million (net of taxes of $7.2 million), or $0.02 per diluted share in the first quarter of fiscal 2004. Asset retirement obligations of $17.9 million, $18.5 million, and $22.4 million are reflected in the company s balance sheets at November 28, 2004, May 30, 2004, and November 23, 2003, respectively. The majority of the company s asset retirement obligations relate to various contractual obligations for restoration of leased assets at the end of lease terms.

Recently Issued Accounting Pronouncement On December 16, 2004, the FASB issued Statement No. 123 (revised 2004) (SFAS No. 123R), *Share-Based Payment*. SFAS No. 123R will require the company to measure the cost of all employee stock-based compensation awards based on the grant date fair value of those awards and to record that cost as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). Excess tax benefits, as defined by this Statement, will be recognized as an addition to paid-in capital. SFAS No. 123R is effective beginning in the company s second quarter of fiscal 2006. The company is currently evaluating the expected impact that the adoption of SFAS No. 123R will have on its results of operations and cash flows.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

2. Discontinued Operations and Divestitures

Chicken Business Divestiture

On November 23, 2003, the company completed the sale of its chicken business to Pilgrim s Pride Corporation (the chicken business divestiture). The company has reflected the results of operations, cash flows, assets and liabilities of the chicken business as discontinued operations for all periods presented.

As part of the divestiture, the company received $301.0 million of cash and 25.4 million shares of Pilgrim s Pride Corporation common stock valued at $246.1 million. The fair value of the Pilgrim s Pride common stock was based on an independent valuation as of the date of the transaction and was reflective of the common stock s trading restrictions. The common stock investment is included in the company s balance sheet within other assets. As of November 28, 2004, 8.47 million shares are classified as available-for-sale, as the company at that date was contractually allowed to sell only those shares within twelve months. Subsequent to that date, an agreement was reached with Pilgrim s Pride Corporation, allowing the company to sell up to ten million shares. The available-for-sale shares are stated at fair value based on quoted market prices with unrealized pre-tax gains of approximately $215 million ($133 million after tax) included in accumulated other comprehensive income. The remaining shares are accounted for at cost (based on the valuation performed on the transaction date).

In December 2004, the company sold 10 million shares of Pilgrim s Pride Corporation common stock for $282.5 million. The company will recognize a pre-tax gain of approximately $186 million in its third quarter of fiscal 2005. This gain includes the following:

($ in millions)

Amounts included in accumulated other comprehensive income at November 28, 2004 for 8.47 million shares classified as available-for-sale	$	215
Reduction in value (including sales commission) associated with shares classified as available-for-sale from November 28, 2004 to December 8, 2004		(57)
Gain realized on sale of additional 1.53 million shares not classified as available-for-sale		28
Total pre-tax gain	$	186

The remaining 15.4 million shares are contractually restricted, such that the company cannot sell any portion of the shares until December 2005, at which time up to 6.94 million shares may be sold. The remaining shares can be sold in future periods beginning after December 13, 2006, but no more than 8.47 million shares may be sold in any twelve-month period. With the consent of Pilgrim s Pride Corporation, these trading restrictions may be waived. The final sales price of the chicken business was subject to a purchase price adjustment based on determination of the final net assets sold, which occurred in the first quarter of fiscal 2005. As part of the final purchase price adjustment, the company paid $34 million to Pilgrim s Pride. The company recognized a loss of $11.7 million for this final settlement in the fourth quarter of fiscal 2004.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

UAP North America Divestiture

On November 23, 2003, the company completed the sale of UAP North America to Apollo Management, L.P. (Apollo). The company has been actively marketing the remaining businesses of its former Agricultural Products segment (UAP International) and believes such businesses will be disposed of during fiscal 2005. Accordingly, the company reflects the results of the entire Agricultural Products segment as discontinued operations for all periods presented.

The company initially received $503 million of cash, $60 million of Series A redeemable preferred stock of UAP Holdings (the UAP Preferred Securities) and $61 million in the form of a receivable from Apollo. The company collected the receivable balance in the first quarter of fiscal 2005.

Based on an independent valuation, the fair value of the UAP Preferred Securities was estimated to approximate their face value. The UAP Preferred Securities investment is included in the company s balance sheet within other assets. UAP Holdings previously repurchased $45 million of preferred securities and accrued dividends for cash, and on November 29, 2004, repurchased the remaining $15 million of preferred securities and accrued dividends for cash.

In the second quarter of fiscal 2005, the company reached agreements in principle with various parties to sell substantially all of the remaining assets of UAP International. As a result, management determined that the ultimate proceeds from such sales would be lower than originally estimated. The company therefore recorded an impairment charge of $24.4 million in order to reflect the assets at the revised estimated fair value, less cost to sell.

Spanish Feed and Portuguese Poultry Divestiture

On May 26, 2004, the company completed the sale of its Spanish feed business to the Carlyle Group. The company completed the sale of its Portuguese poultry business in the first quarter of fiscal 2005. Accordingly, the company removed the results of these businesses from the Food Ingredients reporting segment and reflects the results of these businesses as discontinued operations for all periods presented.

Fresh Beef and Pork Divestitures

In September 2002, the company sold a controlling interest in its fresh beef and pork operations to a joint venture led by Hicks, Muse, Tate & Furst Incorporated (Hicks Muse). Outside investors purchased 55% of the joint venture and the company continued to own the remaining 45%. The fresh beef operations sold to the joint venture included a beef processing business as well as a cattle feeding business. The purchase price associated with the cattle feeding business was financed entirely by the company with cattle feeding-related notes receivable maturing in September 2004. These notes were collateralized by the cattle, feedlots and other assets of the cattle feeding business. Due to the purchase price of the cattle feeding business being entirely financed by the company, the legal divestiture of the cattle feeding operation was not recognized as a divestiture for accounting purposes, and the assets, liabilities and results of operations of the cattle feeding business have continued to be reflected in the company s financial statements. In August 2004, Hicks Muse exercised its option to acquire the company s minority interest investment in the fresh beef and pork business (Swift Foods), and as a consequence, on September 24, 2004, the company sold its minority interest investment in Swift Foods to Hicks Muse for $194.1 million, resulting in a gain of approximately $9 million.

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The company continues to hold subordinated notes in the original principal amount of $150 million from Swift Foods.

On September 24, 2004, the company reached an agreement with affiliates of Swift Foods by which the company took control and ownership of approximately $300 million of the net assets of the cattle feeding business, including feedlots and live cattle. On October 15, 2004, the company sold the feedlots to Smithfield Foods for approximately $70 million. These transactions resulted in a gain of approximately $19.0 million (net of taxes of $11.6 million). The company retained live cattle inventory and related derivative instruments and is liquidating those assets in an orderly manner. As of November 28, 2004, the company had reduced the live cattle inventory to $189 million. The company expects the sale of the live cattle inventory to be substantially completed by April 2005. Beginning September 24, 2004, the assets, liabilities and results of operations, including the gain on sale, of the cattle feeding business are classified as discontinued operations.

Summary results of operations of the former Agricultural Products segment, the chicken business, the Spanish feed and Portuguese poultry businesses, and the cattle feeding business included within discontinued operations are as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	**November 23, 2003**	**November 28, 2004**	**November 23, 2003**
Net sales	$ 143.1	$ 1,647.7	$ 259.6	$ 3,375.6
Long-lived asset impairment charge	$ (24.4)	$ (9.7)	$ (25.6)	$ (9.7)
Income from operations of discontinued operations before income taxes	3.2	73.0	7.9	136.3
Net gain from disposal of businesses	31.3		31.3	
Income before income taxes	10.1	63.3	13.6	126.6
Income tax expense	(15.2)	(31.1)	(17.0)	(55.1)
Income (loss) from discontinued operations, net of tax	$ (5.1)	$ 32.2	$ (3.4)	$ 71.5

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The assets and liabilities of the Agricultural Products segment, the chicken business, the Spanish feed and Portuguese poultry businesses, and the cattle feeding business as of November 28, 2004, May 30, 2004 and November 23, 2003 are as follows:

	November 28, 2004	May 30, 2004	November 23, 2003
Receivables, less allowances for doubtful accounts	$ 92.4	$ 81.6	$ 113.4
Inventories	213.6	48.4	75.7
Prepaid expenses and other current assets	3.6	5.6	9.1
Current assets of discontinued operations	$ 309.6	$ 135.6	$ 198.2
Property, plant and equipment, net	$ 4.2	$ 8.7	$ 33.1
Goodwill and other intangibles			3.9
Other assets	0.9	1.3	2.9
Noncurrent assets of discontinued operations	$ 5.1	$ 10.0	$ 39.9
Notes payable	$ 23.5	$ 23.2	$ 29.4
Accounts payable	85.3	82.2	111.3
Other accrued liabilities and advances on sales	18.3	15.1	20.4
Current liabilities of discontinued operations	$ 127.1	$ 120.5	$ 161.1
Other noncurrent liabilities	$	$	$ 0.3
Noncurrent liabilities of discontinued operations	$	$	$ 0.3

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3. Goodwill and Other Identifiable Intangible Assets

Goodwill by reporting segment was as follows:

	November 28, 2004	May 30, 2004	November 23, 2003
Retail Products	$ 3,484.9	$ 3,476.9	$ 3,479.2
Foodservice Products	291.1	285.1	288.9
Food Ingredients	36.8	34.6	36.8
Total	$ 3,812.8	$ 3,796.6	$ 3,804.9

Other identifiable intangible assets were as follows:

	November 28, 2004		May 30, 2004		November 23, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	$ 798.2	$	$ 798.1	$	$ 794.2	$
Amortizing intangible assets	39.7	11.7	38.7	9.9	40.5	9.1
	$ 837.9	$ 11.7	$ 836.8	$ 9.9	$ 834.7	$ 9.1

Non-amortizing intangible assets are primarily composed of the company s brands/trademarks. Amortizing intangible assets, carrying a weighted average life of approximately 16 years, are principally composed of licensing arrangements and customer lists. Based on amortizing assets recognized in the company s balance sheet as of November 28, 2004, amortization expense is estimated to be approximately $2.5 million for each of the next five years.

4. 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 November 28, 2004, May 30, 2004 and November 23, 2003, the fair value of derivatives recognized within prepaid expenses and other current assets was $8.2 million, $128.1 million and $60.8 million, respectively, while the amount recognized within other accrued liabilities was $23.6 million, $10.3 million and $16.7 million, respectively.

Generally the company hedges a portion of its anticipated consumption of commodity inputs for periods up to 12 months. The company may enter into longer-term hedges on particular commodities if deemed appropriate. As of November 28, 2004, the company had hedged certain portions of its anticipated consumption of commodity inputs through November 2005.

As of November 28, 2004, May 30, 2004 and November 23, 2003, the net deferred gain or loss recognized in accumulated other comprehensive income was a $7.0 million loss, an $8.0 million gain and a $0.9 million loss, net of tax, respectively. The company anticipates a loss of $9.1 million, net of

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tax, will be transferred out of accumulated other comprehensive income and recognized within earnings over the next 12 months. The company anticipates a gain of $2.1 million, net of tax, will be transferred out of accumulated other comprehensive income and recognized within earnings subsequent to the next 12 months.

In order to reduce exposures related to changes in interest rates, the company may use derivative instruments, including interest rate swaps. During fiscal 2004, the company closed out all $2.5 billion of its interest rate swap agreements in order to lock-in existing favorable interest rates. These interest rate swap agreements were previously put in place as a strategy to hedge interest costs associated with long-term debt. For financial statement and tax purposes the proceeds received upon termination of the interest rate swap agreements will be recognized over the term of the debt instruments originally hedged.

Of the $2.5 billion interest rate swaps closed out in fiscal 2004, $2 billion of the interest rate swaps had been used to effectively convert certain of the company s fixed rate debt into floating rate debt. These interest rate swaps were accounted for as fair value hedges and resulted in no recognition of ineffectiveness in the statement of earnings as the interest rate swaps provisions matched the applicable provisions of the hedged debt. The remaining $500 million portion of the company s interest rate swaps was used to hedge certain of the company s forecasted interest payments on floating rate debt for the period from 2005 through 2011. These interest rate swaps were accounted for as cash flow hedges with gains and losses deferred in accumulated other comprehensive income. During the second quarter of fiscal 2005, the company determined it was no longer probable that the related floating rate debt would be issued and therefore the company recognized approximately $13.6 million of additional interest expense associated with this interest rate swap. The company s net interest expense was reduced by $10.6 million due to the net impact of interest rate swap agreements in the first half of fiscal 2005 and by $40.5 million in the comparable period of fiscal 2004.

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5. Earnings Per Share

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	**November 23, 2003**	**November 28, 2004**	**November 23, 2003**
Net income:				
Income from continuing operations before cumulative effect of change in accounting	$ 244.7	$ 236.6	$ 377.7	$ 366.9
Income (loss) from discontinued operations, net of tax	(5.1)	32.2	(3.4)	71.5
Cumulative effect of change in accounting				(11.7)
Net income	$ 239.6	$ 268.8	$ 374.3	$ 426.7
Weighted Average Shares Outstanding:				