AMPCO PITTSBURGH CORP
Form 10-K
March 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

Commission File Number 1-898

AMPCO-PITTSBURGH CORPORATION

Pennsylvania	**25-1117717**
(State of Incorporation)	**I.R.S. Employer ID No.**
600 Grant Street, Suite 4600	**(412) 456-4400**
Pittsburgh, PA 15219	
(Address of principal executive offices)	**(Registrant s telephone number)**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $1 par value	New York Stock Exchange Philadelphia Stock Exchange
Series A Preference Stock Purchase Rights	New York Stock Exchange Philadelphia Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock of Ampco-Pittsburgh Corporation held by non-affiliates on June 29, 2007 (based upon the closing price of the Registrant s Common Stock on the New York Stock Exchange (the NYSE) on that date) was approximately $302 million.

As of March 5, 2008, 10,177,497 common shares were outstanding.

Documents Incorporated by Reference: Part III, Item 11 of this report incorporates by reference certain information from the Proxy Statement dated March 6, 2008.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Ampco-Pittsburgh Corporation (the Corporation) was incorporated in Pennsylvania in 1929. The Corporation, individually or together with its consolidated subsidiaries, is also referred to herein as the Registrant .

The Corporation classifies its businesses in two segments: Forged and Cast Rolls and Air and Liquid Processing.

FINANCIAL INFORMATION ABOUT SEGMENTS

The sales and operating profit of the Corporation s two segments and the identifiable assets attributable to both segments for the three years ended December 31, 2007 are set forth in Note 20 (Business Segments) on page 46 of this Annual Report on Form 10-K.

NARRATIVE DESCRIPTION OF BUSINESS

Forged and Cast Rolls Segment

Union Electric Steel Corporation produces forged hardened steel rolls used in cold rolling by producers of steel, aluminum and other metals throughout the world. It is headquartered in Carnegie, Pennsylvania with three manufacturing facilities in Pennsylvania and one in Indiana. Union Electric Steel Corporation is one of the largest producers of forged hardened steel rolls in the world. In addition to several domestic competitors, several major European, South American and Asian manufacturers also compete in both the domestic and foreign markets. In 2007, a subsidiary company became a 49% partner in a joint venture in China to begin the manufacture of large forged backup rolls during 2010.

The Davy Roll Company Limited produces cast rolls for hot and cold strip mills, medium/heavy section mills and plate mills in a variety of iron and steel qualities. It is located in Gateshead, England and is a major supplier of cast rolls to the metal working industry worldwide. It primarily competes with European, Asian and North and South American companies in both the domestic and foreign markets. Davy Roll also has an investment in a Chinese producer of cast rolls.

Air and Liquid Processing Segment

Aerofin Corporation produces finned tube and plate finned heat exchange coils for the commercial and industrial construction, process and utility industries and is located in Lynchburg, Virginia.

Buffalo Air Handling Company produces large custom air handling systems used in commercial, institutional and industrial buildings and is located in Amherst, Virginia.

Buffalo Pumps, Inc. manufactures a line of centrifugal pumps for the refrigeration, power generation and marine defense industries and is located in North Tonawanda, New York.

All three of the companies in this segment are principally represented by a common independent sales organization and have several major competitors.

In both segments, the products are dependent on engineering, principally custom designed, and are sold to sophisticated commercial and industrial users located throughout the world.

The Forged and Cast Rolls segment has two international customers which constituted 12.3% and 10.5% of its sales in 2007. While loss of these customers would have some potential adverse financial impact, the current worldwide shortage of roll-making capacity is such that the impact could be minimized.

For additional information on the products produced and financial information about each segment, see Note 20 (Business Segments) on page 46 of this Annual Report on Form 10-K.

Raw Materials

Raw materials used in both segments are generally available from many sources and the Corporation is not dependent upon any single supplier for any raw material. Substantial volumes of raw materials used by the Corporation are subject to significant variations in price. The Corporation generally does not purchase or commit for the purchase of a major portion of raw materials significantly in advance of the time it requires such materials but does make substantial forward commitments for the supply of natural gas.

Patents

While the Corporation holds some patents, trademarks and licenses, in the opinion of management they are not material to either segment of the Corporation s business, other than in protecting the goodwill associated with the names under which products are sold.

Backlog

The backlog of orders at December 31, 2007 was approximately $729 million compared to a backlog of $590 million at year-end 2006. Approximately $412 million of those orders is expected to be filled beyond 2008. In addition, the Corporation is a party to long-term supply agreements under which certain customers are committed to purchasing (in 2009 and beyond) approximately $93 million of product for which specific orders have not yet been received.

Competition

The Corporation faces considerable competition from a large number of companies in both segments. The Corporation believes, however, that it is a significant factor in each of the niche markets which it serves. Competition in both segments is based on quality, service, price and delivery. For additional information, see Narrative Description of Business on page 6 of this Annual Report on Form 10-K.

Research and Development

As part of an overall strategy to develop new markets and maintain leadership in each of the industry niches served, each of the Corporation s businesses in both segments incurs expenditures for research and development. The activities that are undertaken are designed to develop new products, improve existing products and processes, enhance product quality, adapt products to meet customer specifications and reduce manufacturing costs. In the aggregate, these expenditures approximated $1.2 million in 2007, $1.5 million in 2006 and $1.2 million in 2005.

Environmental Protection Compliance Costs

Expenditures for environmental control matters were not material to either segment in 2007 and such expenditures are not expected to be material in 2008.

Employees

On December 31, 2007, the Corporation had 1,323 active employees.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

The Forged and Cast Rolls segment has a manufacturing operation in England and a small European sales and engineering support group in Belgium. For financial information relating to foreign and domestic operations see Note 20 (Business Segments) on page 46 of this Annual Report on Form 10-K.

AVAILABLE INFORMATION

The Corporation s Internet address is www.ampcopittsburgh.com. The Corporation makes available, free of charge on its Internet website, access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

From time to time, important factors may cause actual results to differ materially from any future expected results based on performance expressed or implied by any forward-looking statements made by us, including known and unknown risks, uncertainties and other factors, many of which it is not possible to predict or control. Several of these factors are described from time to time in our filings with the Securities and Exchange Commission, but the factors described in filings are not the only risks that are faced.

Exceptional Demand

An unprecedented increase in steel production, particularly in China and certain other developing countries, has created a severe shortage of rolling mill roll production capacity throughout the world. This shortage has resulted in our Forged and Cast Rolls segment receiving orders and contracts for the supply of rolls for several years into the future. Cancellation of such orders and contracts or delays in acceptance of delivery of rolls by customers may result in potential adverse impact on financial results and be the subject of contract renegotiation or even litigation.

Cyclical Demand for Products

A significant portion of our sales consist of rolling mill rolls to customers in the global steel industry which is periodically impacted by cyclical downturns in demand for its product. Such downturns, the timing and length of which are difficult to predict, may reduce the demand for and sales of our forged and cast steel rolls both in the United States and the rest of the world. Lower demand for rolls may also adversely impact profitability as other roll producers, which compete with us, lower selling prices in the market place in order to fill their manufacturing capacity.

Steel Industry Consolidation

Globally, the steel industry has undergone structural change by way of consolidation and mergers. In certain markets, the resultant reduction in the number of steel plants and the increased buying power of the enlarged steel producing companies may put pressure on the selling prices and profit margins of rolls.

Export Sales

Exports are a significant proportion of our sales. Historically, changes in foreign exchange rates, particularly in respect of the U.S. dollar and the Euro, have impacted the export of our products and may do so again in the future. Other factors which may adversely impact export sales and operating results include political and economic instability, export controls, changes in tax laws and tariffs and new indigenous producers in overseas markets. A reduction in the level of export sales may have an adverse impact on our financial results. In addition, exchange rate changes may allow foreign roll suppliers to compete in our home markets.

Capital Spending

Each of our businesses is susceptible to the general level of economic activity, particularly as it impacts industrial and construction capital spending. A downturn in capital spending in the United States and elsewhere may reduce demand for and sales of our air handling, power generation and refrigeration equipment, and rolling mill rolls. Lower demand may also reduce profit margins due to our competitors and us striving to maximize manufacturing capacity by lowering prices.

Prices and Availability of Commodities

We use certain commodities in the manufacture of our products. These include steel scrap, ferro alloys and energy. Any sudden price increase may cause a reduction in profit margins or losses where fixed priced-contracts have been accepted or increases cannot be obtained in future selling prices. In addition, there may be curtailment in electricity or gas supply which would adversely impact production. Shortage of critical materials while driving up costs may be of such severity as to disrupt production, all of which may impact sales and profitability.

Labor Agreements

We have several key operations which are subject to multi-year collective bargaining agreements with our hourly work force. While we believe we have excellent relations with our unions, there is the risk of industrial action at the expiration of an agreement if contract negotiations break down, which may disrupt manufacturing and impact results of operations.

Dependence on Certain Equipment

Our principal business relies on certain unique equipment including a single electric arc furnace and forge press. If any such unique equipment is out of operation for an extended period, it may result in a significant reduction in our sales and earnings. Loss of certain subcontractors may have a similar impact.

Asbestos Litigation

Our subsidiaries, and in some cases, we, are defendants in numerous claims alleging personal injury from exposure to asbestos-containing components historically used in certain products of our subsidiaries. Through year-end 2007, our insurance has covered substantially all of our settlement and defense costs. We believe that our pending asbestos legal proceedings will not have a material adverse effect on our consolidated financial condition or liquidity. However, there can be no assurance that our subsidiaries or we will not be subject to significant additional claims in the future or that our subsidiaries ultimate liability with respect to asbestos claims will not present significantly greater and longer lasting financial exposure than is represented by the pending claims. The ultimate liability with respect to such pending and any unasserted claims is subject to various uncertainties, including the following:

- the number of claims that are brought in the future;
- the costs of defending and settling these claims;
- insolvencies among our insurance carriers and the risk of future insolvencies;
- the possibility that adverse jury verdicts could require damage payments in amounts greater than the amounts for which we have historically settled claims;
- possible changes in the litigation environment or federal and state law governing the compensation of asbestos claimants;
- the risk that the bankruptcies of other asbestos defendants may increase our costs; and
- the risk that our insurance will not cover as much of our asbestos liabilities as anticipated.

Because of the uncertainties related to such claims, it is possible that the ultimate liability could have a material adverse effect on our consolidated financial condition or liquidity in the future.

Environmental Matters

We are subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants and disposal of wastes and which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. We could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or non-compliance with environmental permits required at our facilities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Corporation has no unresolved staff comments.

ITEM 2. PROPERTIES

The location and general character of the principal locations in each segment, all of which are owned unless otherwise noted, are as follows:

Company and Location	Principal Use	Approximate Square Footage	Type of Construction
FORGED AND CAST ROLLS SEGMENT			
Union Electric Steel Corporation Route 18 Burgettstown, PA 15021	Manufacturing facilities	217,000 on 55 acres	Metal and steel
726 Bell Avenue Carnegie, PA 15106	Manufacturing facilities and offices	165,900 on 8.7 acres	Metal and steel
U.S. Highway 30 Valparaiso, IN 46383	Manufacturing facilities	88,000 on 20 acres	Metal and steel
1712 Greengarden Road Erie, PA 16501	Manufacturing facilities	40,000*	Metal and steel
Industrie Park B-3980 Tessenderlo Belgium	Sales and engineering	4,500*	Cement block
The Davy Roll Company Coulthards Lane Gateshead, England	Manufacturing facilities and offices	274,000 on 10 acres	Steel framed, metal and brick
AIR AND LIQUID PROCESSING SEGMENT			
Aerofin Corporation 4621 Murray Place Lynchburg, VA 24506	Manufacturing facilities and offices	146,000 on 15.3 acres	Brick, concrete and steel
Buffalo Air Handling Company Zane Snead Drive Amherst, VA 24531	Manufacturing facilities and offices	89,000 on 19.5 acres	Metal and steel
Buffalo Pumps, Inc. 874 Oliver Street N. Tonawanda, NY 14120	Manufacturing facilities and offices	94,000 on 7 acres	Metal, brick and cement block

* *Facility is leased.*

The Corporate office space is leased, as are several small sales offices. All of the owned facilities are adequate and suitable for their respective purposes.

The Forged and Cast Rolls segment s facilities were operated at more than 95% of their normal capacity during 2007 whereas the facilities of the Air and Liquid Processing segment were operated within 70% to 80% of their normal capacity. Normal capacity is defined as capacity under approximately normal conditions with allowances made for unavoidable interruptions, such as lost time for repairs, maintenance, breakdowns, set-up, failure, supply delays, labor shortages and absences, Sundays, holidays, vacation, inventory taking, etc. The number of work shifts is also taken into consideration.

ITEM 3. LEGAL PROCEEDINGS

LITIGATION

The Corporation and its subsidiaries are involved in various claims and lawsuits incidental to their businesses. In addition, it is also subject to asbestos litigation as described below.

Asbestos Litigation

Claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products of certain of the Corporation s operating subsidiaries (Asbestos Liability) and of an inactive subsidiary and another former division of the Corporation. Those subsidiaries, and in some cases the Corporation, are defendants (among a number of defendants, typically over 50) in cases filed in various state and federal courts.

Asbestos Claims

The following table reflects approximate information about the claims for Asbestos Liability against the subsidiaries and the Corporation, along with certain asbestos claims asserted against the inactive subsidiary and the former division, for the three years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Open claims at end of period	**8,335**(1)	9,442(1)	16,900
Gross settlement and defense costs (in 000 s)	**$ 19,736**	$ 11,681	$ 10,305
Claims resolved	**2,638**	8,866(2)	11,500(3)

(1) *Included as open claims are approximately 3,155 claims in 2007 and 2,300 claims in 2006 classified in various jurisdictions as inactive or transferred to a state or federal judicial panel on multi-district litigation, commonly referred to as the MDL.*

(2) *Claims resolved in 2006 include 5,456 Mississippi cases that were administratively dismissed without prejudice because the cases were initiated through a mass screening and not with a proper medical report setting forth an asbestos-related disease. These cases could be re-filed in the future if the plaintiff can show some evidence of asbestos exposure and evidence of an asbestos-related disease.*

(3) *Claims resolved in 2005 include approximately 6,700 claims filed in Mississippi which were dismissed as a result of tort reform in that state.*

Substantially all settlement and defense costs reflected in the above table were reported and paid by insurers. Because claims are often filed and can be settled or dismissed in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period. In 2006, for the first time, a claim for Asbestos Liability against one of the Corporation s subsidiaries was tried to a jury. The trial resulted in a defense verdict.

Asbestos Insurance

Certain of the Corporation s subsidiaries and the Corporation have an arrangement (the Coverage Arrangement) with insurers responsible for historical primary and some umbrella insurance coverage for Asbestos Liability (the Paying Insurers). Under the Coverage Arrangement, the Paying Insurers accept financial responsibility, subject to the limits of the policies and based on fixed defense percentages and specified indemnity allocation formulas, for a substantial majority of the pending claims for Asbestos Liability.

In the fourth quarter of 2007, one Paying Insurer responsible for two years of primary coverage informed the Corporation that its policies had exhausted. Another Paying Insurer responsible for approximately two and a half years of primary coverage informed the Corporation that two of its policies would likely exhaust in the first quarter of 2008. In addition, the Paying Insurer responsible for some umbrella insurance coverage also informed the Corporation that approximately one half of its umbrella insurance coverage had exhausted at the end of the year. As a result, and as contemplated by the valuation discussed below, the Corporation will bear a portion of the defense and indemnity costs for Asbestos Liability.

The Coverage Arrangement includes an acknowledgement that Howden Buffalo, Inc. (Howden), is entitled to coverage under policies covering Asbestos Liability, for claims arising out of the historical products manufactured or distributed by Buffalo Forge, a former subsidiary of the Corporation (the Products). The Coverage Arrangement does not provide for any prioritization on access to the applicable policies or monetary cap other than the limits of the policies, and, accordingly, Howden may access the policies at any time for any covered claim arising out of a Product. In general, access by Howden to the policies covering the Products will erode the coverage under the policies available to the Corporation and the relevant subsidiaries for Asbestos Liability alleged to arise out of not only the Products but also other historical products of the Corporation and its subsidiaries covered by the applicable policies.

Asbestos Valuations

The Corporation retained Hamilton, Rabinovitz & Alschuler, Inc. (HR&A), a nationally recognized expert in the valuation of asbestos liabilities, to assist the Corporation in estimating the potential liability for pending and unasserted future claims for Asbestos Liability. HR&A was not requested to estimate asbestos claims against the inactive subsidiary or the former division, which the Corporation believes are immaterial. The methodology used by HR&A to project the operating subsidiaries liability for pending and unasserted potential future claims for Asbestos Liability relied upon and included the following factors:

HR&A s interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos;

epidemiological studies estimating the number of people likely to develop asbestos-related diseases;

HR&A s analysis of the number of people likely to file an asbestos-related injury claim against the subsidiaries and the Corporation based on such epidemiological data and relevant claims history from January 1, 2004 through August 31, 2006;

an analysis of pending cases, by type of injury claimed and jurisdiction where the claim is filed;

an analysis of claims resolution history from January 1, 2004 through August 31, 2006 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and

an adjustment for inflation in the future average settlement value of claims, at an annual inflation rate based on the Congressional Budget Office s ten year forecast of inflation.

Using this information, HR&A estimated the number of future claims for Asbestos Liability that would be filed through the year 2013, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2013. This methodology has been accepted by numerous courts.

The Corporation also retained The Claro Group LLC (Claro) in 2006, a nationally-recognized insurance consulting firm, to assist, in combination with advice to the Corporation from outside counsel, in analyzing potential recoveries from relevant historical insurance for Asbestos Liability. Using HR&A s projection for settlement or indemnity costs for Asbestos Liability and management s projections of associated defense costs (based on current defense cost levels with an annual 5% inflation factor), Claro allocated the Asbestos Liability to the insurance policies. The allocations took into account the Coverage Arrangement, self-insured retentions, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, insolvencies among certain of the insurance carriers, the nature of the underlying claims for Asbestos Liability asserted against the subsidiaries and the Corporation as reflected in the Corporation s asbestos claims database, as well as estimated erosion of insurance limits on account of claims against Howden arising out of the Products. Based upon Claro s allocations, and taking into account the Corporation s analysis of publicly available information on the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2013. Although the Corporation, after consulting with its counsel and Claro, believes that the assumptions employed in the insurance valuation were appropriate, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections.

Based on the analyses described above, the Corporation recorded reserves at December 31, 2006 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2013 of $140 million, of which approximately 60% was attributable to settlement and defense costs for unasserted claims projected to be filed through 2013. The reserve at December 31, 2007 was $119.7 million. While it is reasonably possible that the Corporation will incur additional charges for Asbestos Liability and defense costs in excess of the amounts currently reserved, the Corporation believes that there is too much uncertainty to provide for reasonable estimation of the number of future claims, the nature of such claims and the cost to resolve them beyond 2013. Accordingly, no reserve has been recorded for any costs that may be incurred after 2013.

The Corporation recorded a receivable as at December 31, 2006 of $114.5 million ($94.5 million as of December 31, 2007) for insurance recoveries attributable to the claims for which the Corporation s Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Coverage Arrangement, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims. The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers, and substantially all of the insurance recoveries deemed probable were from insurance companies rated A (excellent) or better by A.M. Best Corporation. There can be no assurance, however, that there will not be further insolvencies among the relevant insurance carriers, or that the assumed percentage recoveries for certain carriers will prove correct. The $25.5 million difference between insurance recoveries and projected costs is not due to exhaustion of the total product liability insurance for Asbestos Liability. The Corporation and the subsidiaries have substantial additional insurance coverage which the Corporation expects to be available for Asbestos Liability claims and defense costs the subsidiaries and it may incur after 2013. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

The amounts recorded by the Corporation for Asbestos Liabilities and insurance receivables rely on assumptions that are based on currently known facts and strategy. The Corporation s actual expenses or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Corporation s, HR&A s or The Claro Group s calculations vary significantly from actual results. Key variables in these assumptions are identified above and include the number and type of new claims to be filed each year, the average cost of disposing of each such new claim, average annual defense costs, the resolution of coverage issues with insurance carriers, and the solvency risk with respect to the relevant insurance carriers. Other factors that may affect the Corporation s Asbestos Liability and ability to recover under its insurance policies include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms that may be made by state and federal courts, and the passage of state or federal tort reform legislation.

In 2007, the Corporation undertook another review of its Asbestos Liability claims, defense costs and likelihood for insurance recoveries and determined no change to the provision should be made at this time.

The Corporation intends to evaluate its estimated Asbestos Liability and related insurance receivables as well as the underlying assumptions on a periodic basis to determine whether any adjustments to the estimates are required. Due to the uncertainties surrounding asbestos litigation and insurance, these periodic reviews may result in the Corporation incurring future charges; however, the Corporation is currently unable to estimate such future charges. Adjustments, if any, to the Corporation s estimate of its recorded Asbestos Liability and/or insurance receivables could be material to operating results for the periods in which the adjustments to the liability or receivable are recorded, and to the Corporation s liquidity and consolidated financial position.

ENVIRONMENTAL

With respect to environmental matters, the Corporation is currently performing certain remedial actions in connection with the sale of real estate previously owned and has been named a Potentially Responsible Party at three third-party landfill sites. In addition, as a result of the sale of a segment, the Corporation retained the liability to remediate certain environmental contamination at two of the sold locations and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination from one of these locations. Environmental exposures are difficult to assess and estimate for numerous reasons including lack of reliable data, the multiplicity of possible solutions, the years of remedial and monitoring activity required, and identification of new sites. However, in the opinion of management, the potential liability for all environmental proceedings based on information known to date has been adequately reserved.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES

The shares of common stock of Ampco-Pittsburgh Corporation are traded on the New York Stock Exchange (symbol AP) and the Philadelphia Stock Exchange. Cash dividends have been paid on common shares in every year since 1965.

	2007 Per Share			2006 Per Share		
	Common Stock Price			Common Stock Price		
Quarter	High	Low	Dividends Declared	High	Low	Dividends Declared
First	$ 33.57	$ 22.99	$ 0.15	$ 21.90	$ 13.92	$ 0.10
Second	40.34	28.85	0.15	35.86	18.48	0.10
Third	54.46	36.34	0.15	33.45	25.19	0.10
Fourth	47.00	33.30	0.15	37.31	29.93	0.10
Year	54.46	22.99	0.60	37.31	13.92	0.40

The number of shareholders at December 31, 2007 and 2006 equaled 593 and 629, respectively.

STOCK PERFORMANCE GRAPH

In the above graph, the Corporation has used Value Line s Steel (Integrated) group for its peer comparison. The diversity of products produced by subsidiaries of the Corporation made it difficult to match to any one product-based peer group. Although not totally comparable, the Steel (Integrated) group was chosen because the largest percentage of the Corporation s sales are to the global steel industry.

Historical stock price performance shown on the above graph is not necessarily indicative of future price performance.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
(dollars, except per share amounts, and shares outstanding in thousands)	**2007**	2006	2005	2004	2003
Net sales	**$ 346,834**	$ 301,780	$ 246,999	$ 202,861	$ 180,233
Income (loss) from continuing operations	**39,231**	16,635	15,036	(2,599)	2,908
Net income (loss)(1)	**39,231**	16,635	15,036	(2,599)	(2,190)
Total assets(2)	**404,392**	381,211	241,869	237,944	234,148
Shareholders equity	**187,730**	140,204	141,301	128,517	145,630
Earnings per common share:					
Income (loss) from continuing operations					
Basic	**3.90**	1.69	1.54	(0.27)	0.30
Diluted	**3.88**	1.67	1.53	(0.27)	0.30
Net income (loss)					
Basic	**3.90**	1.69	1.54	(0.27)	(0.23)
Diluted	**3.88**	1.67	1.53	(0.27)	(0.23)
Per common share:					
Cash dividends declared	**0.60**	0.40	0.40	0.40	0.40
Shareholders equity	**18.45**	14.25	14.47	13.19	15.08
Market price at year end	**38.13**	33.48	14.51	14.60	13.67
Weighted average common shares outstanding	**10,046**	9,828	9,760	9,708	9,637
Number of shareholders	**593**	629	698	744	842
Number of employees	**1,323**	1,324	1,234	1,252	1,152

(1) Net income (loss) includes:

2007 A tax benefit of $714 or $0.07 per common share for the release of tax-related valuation allowances associated with capital loss carryforwards.

2006 An after-tax charge of $15,888 for estimated costs of asbestos-related litigation through 2013 net of estimated insurance recoveries (see Note 17 to Consolidated Financial Statements) offset by the release of $6,500 of tax-related valuation allowances, associated primarily with the U.K. operation, for a net decrease to net income of $9,388 or $0.96 per common share.

2005 After-tax proceeds from the settlement of a business interruption insurance claim related to flooding in 2004 and the release of $4,404 of tax-related valuation allowances, associated primarily with the U.K. operation, for a combined improvement to net income of $6,044 or $0.62 per common share.

2003 An after-tax loss from discontinued operations of $5,098 or $0.53 per common share arising from the sale of a segment.

(2) Total assets for 2007 and 2006 include asbestos-related insurance receivables of $94,548 and $114,548, respectively (see Note 17 to Consolidated Financial Statements).

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(in thousands, except per share amounts)

EXECUTIVE OVERVIEW

Ampco-Pittsburgh Corporation (the Corporation), which operates in two business segments more fully described below, achieved record results in 2007. The Forged and Cast Rolls group was the principal contributor with the Air and Liquid Processing segment producing a much-improved level of earnings.

The Forged and Cast Rolls segment consists of Union Electric Steel Corporation (Union Electric Steel) and Davy Roll Company Limited (Davy Roll). Union Electric Steel is one of the world s largest manufacturers of forged-hardened steel rolls with principal operations in Pennsylvania and Indiana whereas Davy Roll produces cast iron and steel rolls and has facilities in England. Rolls are supplied to manufacturers of steel and aluminum throughout the world. The Air and Liquid Processing segment consists of Aerofin Corporation (Aerofin), Buffalo Air Handling Company (Buffalo Air Handling) and Buffalo Pumps, Inc. (Buffalo Pumps). Aerofin produces highly-engineered heat-exchange coils for a variety of users including electric utility, HVAC, power generation, industrial process and other manufacturing industries. Buffalo Air Handling produces custom-designed air handling systems for commercial, institutional and industrial building markets. Buffalo Pumps manufactures centrifugal pumps for the defense, refrigeration and power-generation industries. Aerofin and Buffalo Air Handling have operations in Virginia and Buffalo Pumps is located in New York. The segment distributes a significant portion of its products through a common independent group of sales offices located throughout the U.S. and Canada.

Results for the Forged and Cast Rolls group for 2007 were the highest on record. The increased level of steel and aluminum production throughout the world, particularly in developing countries, the global shortage of roll-making capacity and the weak dollar contributed to the continuing demand for rolls produced by this segment. The outlook for the foreseeable future is favorable. Customers concerned with the ongoing availability of rolls have entered into long-term supply arrangements going out several years. These arrangements generally include protection against inflation in the cost of materials and cancellation of orders. With backlog (unfilled orders on hand) at record levels, the segment has filled its capacity for 2008 and several years beyond for certain roll types.

The Forged and Cast Rolls segment is undertaking a major capital program investing approximately $60 million, in addition to its normal level of capital expenditure, over the next three years. While not significantly adding to the production capacity of the group, the expenditures will minimize equipment down-time, improve productivity and maintain the manufacture of premium, quality product.

During the year, a subsidiary of Union Electric Steel entered into an agreement with Maanshan Iron & Steel Company Limited (Maanshan) to form a joint venture company in China. The joint venture will principally manufacture and sell forged backup rolling-mill rolls of a size and weight currently not able to be produced by Union Electric Steel. It is anticipated to have an initial annual capacity of approximately 10,000 metric tons with Union Electric Steel having exclusive marketing and sales rights. Production is expected to begin by early 2010. Union Electric Steel has a forty-nine percent interest in the joint venture which is accounted for on the equity method (see Note 2 to the Consolidated Financial Statements).

The focus for the Forged and Cast Rolls segment in the coming year will be to manage the ever-extending backlog while operating at capacity, maintaining the reliability of equipment, and coordinating the new backup roll joint venture in China while sustaining its reputation for superior quality and on-time delivery.

Results for the Air and Liquid Processing segment for 2007 were the highest since 2002 with each company s operating performance stronger than in 2006 and 2005. In particular, the volume-sensitive air handling systems business returned to profitability from close to break-even results in 2006 and losses in 2005. In 2006, results for the group were severely impacted by a $25,467 pre-tax charge for estimated settlement and defense costs of pending and future asbestos claims offset by estimated insurance recoveries (see Note 17 to Consolidated Financial Statements). The outlook for 2008 for this segment is for a modest increase in sales and operating income.

CONSOLIDATED RESULTS OF OPERATIONS OVERVIEW

Consolidated sales and operating income for 2007, 2006 and 2005 are indicated below. A full discussion of the operating results for each of the segments is presented later in this section.

The Corporation

	2007		2006		2005	
Net Sales:						
Forged and Cast Rolls	**$ 241,581**	**70%**	$ 206,374	68%	$ 171,243	69%
Air and Liquid Processing	**105,253**	**30%**	95,406	32%	75,756	31%
Total	**$ 346,834**	**100%**	$ 301,780	100%	$ 246,999	100%
Income (Loss) from Operations:						
Forged and Cast Rolls	**$ 54,523**		$ 36,352		$ 16,493	
Air and Liquid Processing	**9,037**		(19,206)		3,743	
Corporate costs	**(6,143)**		(5,574)		(5,535)	
Total	**$ 57,417**		$ 11,572		$ 14,701	
Backlog:						
Forged and Cast Rolls	**$ 684,769**	**94%**	$ 548,522	93%	$ 275,597	88%
Air and Liquid Processing	**43,949**	**6%**	41,302	7%	36,675	12%
Total	**$ 728,718**	**100%**	$ 589,824	100%	$ 312,272	100%

In comparison to the prior years, sales and operating income for 2007 improved significantly for each of the segments on higher volumes and, for the Forged and Cast Rolls group, better pricing. Income from operations for 2007 was negatively impacted by higher net periodic pension costs associated with the Corporation s various pension plans. Pension costs increased by approximately $1,813 and $657 when compared to 2006 and 2005, respectively, due principally to changes in assumptions.

The growth in backlog at December 31, 2007 against December 31, 2006 and 2005 is attributable to the Forged and Cast Rolls segment and increased demand for rolling mill rolls. A shortage of roll manufacturing capacity has forced customers to place orders considerably in advance of shipment dates; accordingly, approximately $411,541 (or 56%) of the backlog is scheduled for delivery beyond 2008. In addition, the Forged and Cast Rolls group has commitments from customers under long-term supply arrangements which will be included in backlog upon receipt of purchases orders.

Gross margin, excluding depreciation, as a percentage of net sales approximated 29.7%, 26.5% and 21.1% for 2007, 2006 and 2005, respectively. The improvement is primarily attributable to the additional volume and better pricing, particularly for the Forged and Cast Rolls segment. Gross margin, excluding depreciation, was negatively affected in 2007 by higher net periodic pension costs associated with the Corporation s various pension plans. By comparison, 2005 was adversely impacted by unprecedented increases in the cost of steel scrap and ferro alloys used by the Forged and Cast Rolls group and its inability to recover such costs due to fixed selling price contracts. Increase in commodity costs have continued; however, starting in 2005, a variable-index surcharge mechanism was adopted which provides protection from unforeseen increases in cost of raw materials.

Selling and administrative expenses totaled $38,972 (11.2% of net sales), $36,284 (12.0% of net sales) and $30,785 (12.5% of net sales) for 2007, 2006 and 2005, respectively. The dollar increase is due principally to higher sales commissions which are at fixed percentage and accordingly increase as sales rise, general inflationary increases associated with salaries and fringes and higher net periodic pension costs.

The charge for asbestos litigation in 2006 represents the estimated costs of pending and future asbestos claims, net of estimated insurance recoveries, for a period of seven years ending December 31, 2013. The claims result from alleged personal injury from exposure to asbestos-containing equipment manufactured decades ago by certain subsidiaries of the Air and Liquid Processing segment (see Note 17 to Consolidated Financial Statements).

Investment-related income improved in 2007 versus 2006 and in 2006 against 2005 due to higher investment balances throughout the respective years, better rates of return and increased dividends from the Corporation s U.K./Chinese cast-roll joint venture company. Such dividends approximated $540 in 2007 and $170 in 2006, the first year that dividends were received. Interest expense for 2007 and 2006 was comparable and the increase from 2005 is attributable to higher interest rates on the Corporation s variable-rate Industrial Revenue Bonds. Other income (expense) fluctuated primarily as a result of higher foreign exchange losses in 2007 versus gains in 2006 and 2005. An additional provision of $335 for environmental costs estimated to be incurred relating to the remediation of real estate previously owned by a discontinued operation was provided in 2006 and is included in other income (expense) for that year.

The Corporation s statutory income tax rate ranges between 34% 35% which compares to an effective rate of 32.8%, (26.7%) and (1.3%) for 2007, 2006 and 2005, respectively. The effective rates were reduced by the reversal of valuation allowances previously provided against deferred income tax assets associated with capital loss carryforwards for 2007, and primarily with the U.K. operation for 2006 and 2005 which resulted in an overall income tax benefit for each of those two years. Beneficial permanent differences for the domestic operations also favorably impacted the effective rates.

As a result of the above, the Corporation earned $39,231 or $3.90 per common share for 2007, $16,635 or $1.69 per common share for 2006 and $15,036 or $1.54 per common share for 2005. Net income for 2007 includes an after-tax benefit of $714 or $0.07 per common share for the release of tax-related valuation allowances associated with capital loss carryforwards. Net income for 2006 includes a net after-tax charge of $9,388 or $0.96 per common share for the estimated costs of asbestos-related litigation through 2013 offset by the release of tax-related valuation allowances principally for the Corporation s U.K. operation. Net income for 2005 includes a net after-tax benefit of $6,044 or $0.62 per common share for proceeds from settlement of a business interruption insurance claim and the release of tax-related valuation allowances principally for the Corporation s U.K. operation.

Forged and Cast Rolls

	2007	2006	2005
Sales	**$ 241,581**	$ 206,374	$ 171,243
Operating income	**$ 54,523**	$ 36,352	$ 16,493
Backlog	**$ 684,769**	$ 548,522	$ 275,597

The Forged and Cast Rolls segment continued to benefit from growth in steel production throughout the world, particularly in developing countries. This, together with a global shortage of roll-making capacity, resulted in improved pricing, higher volumes and a more favorable product mix for the segment culminating in record sales and operating income for 2007. More than seventy percent of the sales for this group were to 40 countries outside of the U.S. and U.K. The variable-index surcharge program implemented in 2005 helps to protect the Corporation against fluctuations in the cost of steel scrap and alloys used in the manufacture of rolls. By comparison, part of 2005 was negatively impacted by fixed selling price contracts and the inability to pass on these higher costs to the customer. Proceeds of $2,320 from a business interruption insurance claim relating to flood damage caused in 2004 were received in 2005 and are included in earnings.

Order backlogs have continued to improve and are indicative of the increase in global demand along with customers ordering their roll requirements several years in advance to ensure continuity of supply. Approximately $410,324 (or 59.9%) of the December 31, 2007 backlog is scheduled for shipment beyond 2008. In addition, the Forged and Cast Rolls group has commitments of more than $90,000 from customers under long-term supply arrangements which will be included in backlog upon receipt of specific purchase orders closer to the requirement dates for delivery.

Air and Liquid Processing

Operating income (loss) for 2006 includes a $25,467 charge for asbestos litigation relating to claims resulting from alleged personal injury from exposure to asbestos-containing equipment manufactured decades ago by certain subsidiaries of the Air and Liquid Processing segment (see Note 17 to Consolidated Financial Statements). In addition, uninsured legal and case management and valuation costs associated with asbestos litigation approximated $450, $623 and $931 in 2007, 2006 and 2005, respectively.

	2007	2006	2005
Sales	**$ 105,253**	$ 95,406	$ 75,756
Operating income (loss)	**$ 9,037**	$ (19,206)	$ 3,743
Backlog	**$ 43,949**	$ 41,302	$ 36,675

In 2007, the Air and Liquid Processing segment had its best performance over the past five years. Sales and operating income increased for each of the operations primarily as a result of higher volumes of business activity. For Buffalo Pumps, sales and operating income bettered due to additional orders for commercial pumps from the power generation industry and pumps for U.S. Navy shipbuilders. For Aerofin, greater market share and continued demand from OEM customers improved sales and operating income. With respect to Buffalo Air Handling, sales and operating income increased in 2007 as a result of a strong opening backlog with operating income being further enhanced by manufacturing efficiencies attributable to a more experienced labor force.

Order backlogs for Buffalo Pumps and Aerofin improved in comparison to the prior years. The pumps operation benefited from additional orders by power generation customers and Navy shipbuilders and the heat-exchange coil business experienced increased demand from its OEM customers. Backlog at the beginning of the year for Buffalo Air Handling was strong; however, some slowdown was experienced during the year as the economy weakened causing backlog to fall below that as of the end of 2006 and 2005. Approximately $1,217 (or 2.8%) of the December 31, 2007 backlog for this segment is scheduled for shipment beyond 2008.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities for 2007 and 2006 were comparable at $28,505 and $26,714, respectively, against $10,986 for 2005. The improvement from 2005 is primarily attributable to the positive cash flow effect from increased earnings. While the $25,467 charge for asbestos litigation recorded in 2006 reduced earnings, it did not impact cash flows for that year. Instead, the asbestos liability, net of insurance recoveries, will be paid over a number of years. Net payments in 2007 approximated $300 and are estimated at $10,000 in 2008. The overall improvement in the Corporation s business activity resulted in higher sales in the fourth quarter of 2007 increasing accounts receivable as of December 31, 2007 in comparison to 2006 and 2005. Similarly, inventories were higher due to additional demand for product, particularly rolling mill rolls. In 2005, the Corporation received $2,320 of proceeds from its business interruption insurance claim for damage caused by flooding to its principal roll-finishing facility in 2004.

Net cash flows (used in) provided by investing activities were $(14,373), $24,096 and $(10,895) in 2007, 2006 and 2005, respectively. The fluctuation is primarily attributable to a change in the Corporation s investment strategy in 2006 resulting in liquidation of shortterm investments at year-end 2007 and 2006 with monies re-invested in January of the following year. By comparison, the Corporation was a net purchaser of short-term marketable securities in 2005 of $6,095. Cash outflows include capital expenditures of approximately $13,107, $7,836 and $4,867 in 2007, 2006 and 2005, respectively. As of December 31, 2007, future capital expenditures approximating $60,000 have been approved by the Board of Directors of the Corporation, which include approximately $38,000 for the purchase of a forge press, manipulator, and ancillary equipment for the Corporation s domestic forged-roll facility to be spent over the next 30 months. Additionally, Union Electric Steel made its initial contribution of $2,940 for its 49% interest in the newly-created joint venture with the remaining $11,760 expected to be contributed over the next two years. Davy Roll also contributed $340 to its Chinese cast-roll joint venture in 2007.

Net cash outflows from financing activities were substantially breakeven for 2007 with proceeds from the issuance of stock under the Corporation s stock option plan and resulting excess tax benefits offsetting dividends paid. By comparison, dividends paid in 2006 and 2005 exceeded proceeds received from the issuance of stock under the Corporation s stock option plan. Quarterly dividends for 2007 were $0.15 per common share and $0.10 per common share in 2006 and 2005.

The change in the value of the Euro and the British pound against the dollar impacted cash and cash equivalents by $116, $480 and $182 for 2007, 2006 and 2005, respectively.

As a result of the above, cash and cash equivalents increased by $15,543 in 2007 and ended the year at $71,627 in comparison to $56,084 at December 31, 2006. At December 31, 2005, the Corporation had cash and cash equivalents of $7,914 and investments in short-term marketable securities of approximately $31,550. Funds on hand and funds generated from future operations are expected to be sufficient to finance the operational and capital expenditure requirements of the Corporation. The Corporation also maintains short-term lines of credit in excess of the cash needs of its businesses. The total available at December 31, 2007 was approximately $10,600 (including £3,000 in the U.K. and 400 in Belgium).

The Corporation has the following contractual obligations outstanding as of December 31, 2007:

		Payments Due by Period				
	Total	**<1 year**	**1 3 years**	**3 5 years**	**>5 years**	**Other**
Industrial Revenue Bond Debt[1]	**$ 13,311**	$	$	$	$ 13,311	$
Operating Lease Obligations	**3,863**	835	1,143	775	1,110	

Net short-term borrowings	97.2	232.0
Repayment of long-term debt	(2.3)	(16.9)
Repurchase of ConAgra Foods, Inc. common shares	(30.9)	(75.0)
Cash dividends paid	(104.8)	(97.9)
Exercise of stock options and issuance of other stock awards	62.9	10.8
Other items	0.5	0.2
Net cash flows from financing activities	22.6	53.2
Effect of exchange rate changes on cash and cash equivalents	(0.8)	1.7
Net change in cash and cash equivalents	10.3	13.5
Cash and cash equivalents at beginning of period	183.9	103.0
Cash and cash equivalents at end of period	$ 194.2	$ 116.5

See notes to the condensed consolidated financial statements.

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ConAgra Foods, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Thirteen Weeks ended August 25, 2013 and August 26, 2012
(columnar dollars in millions except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the "Company," "we," "us," or "our") annual report on Form 10-K for the fiscal year ended May 26, 2013.

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

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

Comprehensive Income — Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains (losses) from pension (for amounts not in excess of the 10% corridor) and postretirement health care plans. We generally deem our foreign investments to be essentially permanent in nature and we do not provide for taxes on currency translation adjustments arising from converting the investment denominated in a foreign currency to U.S. dollars. When we determine that a foreign investment, as well as undistributed earnings, are no longer permanent in nature, estimated taxes are provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments.

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

	Thirteen Weeks Ended	
	August 25, 2013	August 26, 2012
Net derivative adjustment	$26.9	$(1.6)
Unrealized gains on available-for-sale securities	0.1	—
Pension and postretirement healthcare liabilities	—	0.5
	$27.0	$(1.1)

The following table summarizes the reclassifications from accumulated other comprehensive loss into income for the thirteen weeks ended August 25, 2013:

	Amount reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Condensed Consolidated Statement of Earnings
Net derivative adjustment		
Fair value hedges	$0.1	Interest expense, net
	—	Income tax benefit
	$0.1	Net of tax
Amortization of pension and other postretirement benefits:		
Net prior service cost	$(0.8)	

		Selling, general and administrative expenses
Net actuarial losses	1.6	Selling, general and administrative expenses
	0.8	Total before tax
	(0.3)	Income tax benefit
	$0.5	Net of tax

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Reclassifications — Certain prior year amounts have been reclassified to conform with current year presentation.
Use of Estimates — Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues, and expenses as reflected in the condensed consolidated financial statements. Actual results could differ from these estimates.
Recently Issued Accounting Standards — In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", which states that entities should present the unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss ("NOL") or similar tax loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward under the tax law. No new disclosures are necessary. This ASU will be effective for the first interim reporting period in fiscal 2015.

2. ACQUISITIONS

In January 2013, we acquired Ralcorp Holdings, Inc. ("Ralcorp"). The total amount of consideration paid in connection with the acquisition was approximately $4.75 billion, net of cash acquired, plus assumed liabilities. We funded the merger consideration with existing cash on hand, borrowings under a new $1.5 billion senior unsecured Term Loan Facility with Bank of America, N.A., as administrative agent and a lender, JP Morgan Chase Bank, N.A. as syndication agent and a lender, and the other financial institutions party thereto (the "Term Loan Facility"), and net proceeds from the issuance of new senior notes and common stock. The Ralcorp business is reflected in two reporting segments: the Ralcorp Food Group segment and the Ralcorp Frozen Bakery Products segment.
The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The fair values of the assets and liabilities related to Ralcorp are subject to refinement as we complete our analyses relative to the fair values at the date of acquisition. Changes that have occurred since initial allocation have not been retrospectively applied, as the impact on reported results would not have been material.

	January 29, 2013
Assets acquired:	
Cash and cash equivalents	$320.7
Other current assets	912.8
Property, plant and equipment	1,006.8
Goodwill	4,343.2
Brands, trademarks and other intangibles	2,167.3
Other assets	27.7
Total assets acquired	$8,778.5
Liabilities assumed:	
Current liabilities	$616.3
Noncurrent liabilities	3,091.3
Total liabilities assumed	$3,707.6
Net assets acquired	$5,070.9

As a result of the acquisition, we recognized a total of $4.34 billion of goodwill and $2.17 billion of brands, trademarks and other intangibles. Amortizable brands, trademarks and other intangibles totaled $2.03 billion. Indefinite lived brands, trademarks and other intangibles totaled $134.1 million. Of the total goodwill, $397.0 million is deductible for tax purposes. The allocation of goodwill to the Ralcorp Food Group and Ralcorp Frozen Bakery Products segments is pending further analysis.
In August 2012, we acquired the P.F. Chang's® and Bertolli® brands frozen meal business from Unilever for $266.9 million in cash. Products will continue to be produced by Unilever under transactions services and contract manufacturing agreements until the end of calendar year 2013. Approximately $100.1 million of the purchase price was allocated to goodwill and $91.8 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is deductible for tax purposes. This business is included in the Consumer Foods segment.

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For each of these acquisitions, the amounts allocated to goodwill were primarily attributable to anticipated synergies, product portfolios, and other intangibles that do not qualify for separate recognition.
Under the acquisition method of accounting, the assets acquired and liabilities assumed in these acquisitions were recorded at their respective estimated fair values at the date of acquisition.
The following unaudited pro forma financial information presents the combined results of operations as if the acquisitions of Ralcorp and the P.F. Chang's and Bertolli brands' frozen meal business (collectively, the "acquirees") had occurred at the beginning of the fiscal year acquired. The acquirees' pre-acquisition results have been added to ConAgra Foods' historical results. The pro forma results contained in the table below include adjustments for amortization of acquired intangibles and depreciation expense, as well as related income taxes.
These pro forma results may not necessarily reflect the actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Thirteen weeks ended August 26, 2012
Pro forma net sales	$4,421.1
Pro forma net income from continuing operations	$281.0
Pro forma net income from continuing operations per share—basic	$0.69
Pro forma net income from continuing operations per share—diluted	$0.68

Subsequent to the end of the first quarter of fiscal 2014, we agreed to acquire frozen dessert production assets from Harlan Bakeries. We expect the total purchase price to be approximately $39.0 million in cash. The agreement includes the purchase of machinery, operating systems, warehousing/storage, and other assets associated with making frozen fruit pies, cream pies, pastry shells, and loaf cakes. We anticipate final settlement of the purchase to be completed in the second quarter of fiscal 2014.

3. DISCONTINUED OPERATIONS

Lightlife® Operations

Subsequent to the end of the first quarter of fiscal 2014, we completed the sale of the assets of the Lightlife® business for $54.7 million in cash. This business produces and sells vegetarian-based burgers, hot dogs, and other meatless frozen and refrigerated items. The results of this business were previously reflected in the Consumer Foods segment. We reflected the results of these operations as discontinued operations for all periods presented. We expect to recognize an estimated pre-tax and after-tax gain of $32.0 million and $15.3 million, respectively, which will be classified as discontinued operations in the second quarter of fiscal 2014.
The summary comparative financial results of discontinued operations were as follows:

	Thirteen weeks ended	
	August 25, 2013	August 26, 2012
Net sales	$9.2	$9.6
Income (loss) from operations of discontinued operations before income taxes	1.7	(0.7)
Income tax expense (benefit)	0.6	(0.3)
Income (loss) from discontinued operations, net of tax	$1.1	$(0.4)

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The assets and liabilities classified as held for sale reflected in our condensed consolidated balance sheets were as follows:

	August 25, 2013	May 26, 2013
Inventories	$3.5	$3.8
Current assets held for sale	$3.5	$3.8
Property, plant and equipment, net	$8.7	$8.8
Goodwill	6.6	6.6
Brands, trademarks and other intangibles, net	3.9	4.0
Noncurrent assets held for sale	$19.2	$19.4

4. RESTRUCTURING ACTIVITIES

Ralcorp Related Restructuring Plan

We are incurring costs in connection with actions taken due to the ongoing integration and restructuring of the operations of Ralcorp (the "Ralcorp Related Restructuring Plan"). The plan is expected to include steps to, among other things, improve operational effectiveness and reduce costs, integrate headquarter functions across the organization, and optimize manufacturing assets and distribution networks, as a result of which we expect to incur material charges for exit and disposal activities. At the time of the acquisition of Ralcorp, we anticipated that we would need to take restructuring actions in integrating Ralcorp and since that time have been evaluating, and continue to evaluate, such actions. We are currently unable, in good faith, to make a determination of an estimate of the total amount or range of amounts for each major type of cost expected to be incurred in connection with the Ralcorp Related Restructuring Plan, an estimate of the total amount or range of amounts expected to be incurred in connection with the Ralcorp Related Restructuring Plan, or an estimate of the amount or range of amounts of the charges that will result in future cash expenditures. We are also currently unable to determine the duration of the Ralcorp Related Restructuring Plan, but expect that the Ralcorp Related Restructuring Plan will be implemented over a multi-year period.

During the first quarter of fiscal 2014, we recognized the following pre-tax expenses for the Ralcorp Related Restructuring Plan:

	Consumer Foods	Corporate	Total
Cost of goods sold	$0.3	$—	$0.3
Severance and related costs	$—	$7.0	$7.0
Total selling, general and administrative expenses	$—	$7.0	$7.0
Consolidated total	$0.3	$7.0	$7.3

All of these charges have resulted or will result in cash outflows.

We recognized the following cumulative (plan inception to August 25, 2013) pre-tax expenses related to the Ralcorp Related Restructuring Plan in our condensed consolidated statement of earnings:

	Consumer Foods	Corporate	Total
Multi-employer pension costs	$—	$11.2	$11.2
Other cost of goods sold	0.3	—	0.3
Total cost of goods sold	$0.3	$11.2	$11.5
Severance and related costs	$—	$24.2	$24.2
Total selling, general and administrative expenses	$—	$24.2	$24.2
Consolidated total	$0.3	$35.4	$35.7

All of these charges have resulted or will result in cash outflows.

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Liabilities recorded for the Ralcorp Related Restructuring Plan and changes therein for the first quarter of fiscal 2014 were as follows:

	Balance at May 26, 2013	Costs Incurred and Charged to Expense	Costs Paid or Otherwise Settled	Balance at August 25, 2013
Severance	$17.2	$7.0	$(3.1)	$21.1
Multi-employer pension and related costs	11.2	0.3	(0.3)	11.2
Total	$28.4	$7.3	$(3.4)	$32.3

Acquisition-related Restructuring Costs

During fiscal 2012, we started incurring costs in connection with actions taken to attain synergies when integrating businesses acquired prior to the third quarter of fiscal 2013. These costs, collectively referred to as "acquisition-related restructuring costs", include severance and other costs associated with consolidating facilities and administrative functions. In connection with the acquisition-related restructuring costs, we incurred pre-tax cash and non-cash charges of $14.9 million ($12.4 million in the Consumer Foods segment and $2.5 million in Corporate expenses) cumulatively since inception. By the end of fiscal 2013, the acquisition-related restructuring costs were substantially complete. In the first quarter of fiscal 2014, we incurred $0.9 million in the Consumer Foods segment.

Administrative Efficiency Plan

In August 2011, we made a decision to reorganize our Consumer Foods sales function and certain other administrative functions within our Commercial Foods and Corporate reporting segments. These actions, collectively referred to as the "Administrative Efficiency Plan", were intended to improve the efficiency and effectiveness of the affected sales and administrative functions. In connection with the Administrative Efficiency Plan, we have incurred pre-tax cash and non-cash charges of $18.7 million ($13.8 million in the Consumer Foods segment, $1.0 million in the Commercial Foods segment, and $3.9 million in Corporate expenses), primarily for severance and costs of employee relocation. At the end of fiscal 2013, the Administrative Efficiency Plan was substantially complete.

Network Optimization Plan

During the third quarter of fiscal 2011, our Board of Directors approved a plan designed to optimize our manufacturing and distribution networks. We refer to this plan as the "Network Optimization Plan". The Network Optimization Plan consists of projects that involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize our distribution network. In connection with the Network Optimization Plan, we have incurred pre-tax cash and non-cash charges of $76.7 million ($59.9 million in the Consumer Foods segment, $16.0 million in the Commercial Foods segment, and $0.8 million in Corporate expenses), primarily for impairments of property, plant and equipment, accelerated depreciation, severance and related costs, and plan implementation costs (e.g., consulting and employee relocation). At the end of fiscal 2013, the Network Optimization Plan was substantially complete.

Ralcorp Pre-acquisition Restructuring Plans

At the time of its acquisition, Ralcorp had certain initiatives underway designed to optimize its manufacturing and distribution networks. We refer to these actions and the related costs as "Ralcorp Pre-acquisition Restructuring Plans". These plans consist of projects that involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize its distribution network. We expect to incur $3.7 million of charges that have resulted or will result in cash outflows associated with the Ralcorp Pre-acquisition Restructure Plans. We have recognized cumulative (plan inception to August 25, 2013) pre-tax expenses of $2.6 million related to the Ralcorp Pre-acquisition Restructuring Plans. In the first quarter of fiscal 2014, we recognized charges of $1.3 million.

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5. LONG-TERM DEBT

Net interest expense consists of:

	Thirteen Weeks Ended	
	August 25, 2013	August 26, 2012
Long-term debt	$99.7	$51.6
Short-term debt	0.3	0.2
Interest income	(0.6)	(0.8)
Interest capitalized	(3.8)	(1.7)
	$95.6	$49.3

Net interest expense for the first quarter of fiscal 2014 and 2013 was reduced by $2.3 million and $2.2 million, respectively, due to the impact of the interest rate swap contracts entered into in the fourth quarter of fiscal 2010. The interest rate swaps effectively changed our interest rates on the senior long-term debt instruments maturing in fiscal 2012 and 2014 from fixed to variable. During the second quarter of fiscal 2011, we terminated the interest rate swap contracts and received proceeds of $31.5 million. The cumulative adjustment to the fair value of the debt instruments that were hedged (the effective portion of the hedge) is being amortized as a reduction of interest expense over the remaining lives of the debt instruments (through fiscal 2014).

As a result of our acquisition of Ralcorp, the senior unsecured notes issued in exchange for senior notes issued by Ralcorp of $716.0 million and the senior notes issued by Ralcorp that remain outstanding of $33.9 million were recorded at fair value. The combined fair value adjustment on these notes was $163.8 million and is being amortized within interest expense over the life of the respective notes. Our net interest expense for the first quarter of fiscal 2014 was reduced by $1.6 million as a result of this amortization.

6. VARIABLE INTEREST ENTITIES

Variable Interest Entities Consolidated

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 25, 2013, the price at which Ochoa had the right to put its equity interest to us was $39.8 million. This amount is presented within other noncurrent liabilities in our condensed consolidated balance sheets. We have determined that Lamb Weston BSW is a variable interest entity and that we are the primary beneficiary of the entity. Accordingly, we consolidate the financial statements of Lamb Weston BSW.

We hold a promissory note from Lamb Weston BSW, the balance of which was $36.1 million at August 25, 2013. The promissory note is due in December 2015. The promissory note is currently accruing interest at a rate of LIBOR plus 200 basis points with a floor of 3.25%. In addition, as of August 25, 2013, we provided lines of credit of up to $15.0 million to Lamb Weston BSW. Borrowings under the lines of credit bear interest at a rate of LIBOR plus 200 basis points with a floor of 3.25%. The amounts owed by Lamb Weston BSW to the Company are not reflected in our condensed consolidated balance sheets, as they are eliminated in consolidation.

Our variable interests in Lamb Weston BSW include an equity investment in the venture, the options, the promissory note, certain fees paid to us by Lamb Weston BSW for sales and marketing services, the contingent obligation related to production shortfalls, and the lines of credit advanced to Lamb Weston BSW. Our maximum exposure to loss as a result of our involvement with this venture is equal to our equity investment in the venture, the balance of the promissory note extended to the venture, the amount, if any, advanced under the lines of credit, and the amount, if any, by which the put option exercise price exceeds the fair value of the noncontrolling interest in Lamb Weston BSW upon exercise of the put option. Also, in the event of a production shortfall, we could be required to compensate Ochoa for lost profits. It is not possible to determine the maximum exposure to losses from the potential exercise of the put option or from potential production shortfalls. However, we do not expect to incur material losses resulting from these potential exposures.

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Due to the consolidation of this variable interest entity, we reflected in our condensed consolidated balance sheets:

	August 25, 2013	May 26, 2013
Cash and cash equivalents	$9.4	$8.9
Receivables, less allowance for doubtful accounts	22.4	16.4
Inventories	1.4	1.4
Prepaid expenses and other current assets	—	0.4
Property, plant and equipment, net	54.3	54.8
Goodwill	18.8	18.8
Brands, trademarks and other intangibles, net	7.3	7.5
Total assets	$113.6	$108.2
Accounts payable	$10.9	$8.9
Accrued payroll	0.7	0.6
Other accrued liabilities	0.9	0.7
Other noncurrent liabilities (minority interest)	32.4	30.7
Total liabilities	$44.9	$40.9

The liabilities recognized as a result of consolidating the Lamb Weston BSW entity do not represent additional claims on our general assets. The creditors of Lamb Weston BSW have claims only on the assets of Lamb Weston BSW. The assets recognized as a result of consolidating Lamb Weston BSW are the property of the venture and are not available to us for any other purpose, other than as a secured lender under the promissory note and lines of credit.

Variable Interest Entities Not Consolidated

We also have variable interests in certain other 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% 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 $14.6 million and $15.2 million at August 25, 2013 and May 26, 2013, 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 $29.1 million and term borrowings from banks of $43.9 million as of August 25, 2013. 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.

7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first quarter of fiscal 2014 was as follows:

	Consumer Foods	Commercial Foods	Ralcorp	Total
Balance as of May 26, 2013	$3,966.4	$128.9	$4,348.8	$8,444.1
Currency translation and purchase accounting adjustments	(18.8)	0.3	(8.6)	(27.1)
Balance as of August 25, 2013	$3,947.6	$129.2	$4,340.2	$8,417.0

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Other identifiable intangible assets were as follows:

	August 25, 2013		May 26, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	$1,133.5	$—	$1,139.7	$—
Amortizing intangible assets	2,399.6	150.1	2,400.4	122.0
	$3,533.1	$150.1	$3,540.1	$122.0

The allocation of goodwill to the Ralcorp Food Group and Ralcorp Frozen Bakery Products segments is pending further analysis.

Non-amortizing intangible assets are comprised of brands and trademarks.

Amortizing intangible assets, carrying a weighted average life of approximately 23 years, are principally composed of licensing arrangements, customer relationships, and intellectual property. Based on amortizing assets recognized in our condensed consolidated balance sheet as of August 25, 2013, amortization expense is estimated to average $111.1 million for each of the next five years.

8. DERIVATIVE FINANCIAL INSTRUMENTS

Our operations are exposed to market risks from adverse changes in commodity prices affecting the cost of raw materials and energy, foreign currency exchange rates, and interest rates. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivatives.

Commodity and commodity index futures and option contracts are used from time to time to economically hedge commodity input prices on items such as natural gas, vegetable oils, proteins, packaging materials, dairy, grains, and electricity. Generally, we economically hedge a portion of our anticipated consumption of commodity inputs for periods of up to 36 months. We may enter into longer-term economic hedges on particular commodities, if deemed appropriate. As of August 25, 2013, we had economically hedged certain portions of our anticipated consumption of commodity inputs using derivative instruments with expiration dates through June 2015.

In order to reduce exposures related to changes in foreign currency exchange rates, we enter into forward exchange, option, or swap contracts from time to time for transactions denominated in a currency other than the applicable functional currency. This includes, but is not limited to, hedging against foreign currency risk in purchasing inventory and capital equipment, sales of finished goods, and future settlement of foreign-denominated assets and liabilities. As of August 25, 2013, we had economically hedged certain portions of our foreign currency risk in anticipated transactions using derivative instruments with expiration dates through July 2017.

From time to time, we may use derivative instruments, including interest rate swaps, to reduce risk related to changes in interest rates. This includes, but is not limited to, hedging against increasing interest rates prior to the issuance of long-term debt and hedging the fair value of our senior long-term debt.

Derivatives Designated as Cash Flow Hedges

We have entered into interest rate swap contracts to hedge the interest rate risk related to our forecasted issuance of long-term debt in 2014 (based on the anticipated refinancing of the senior long-term debt maturing at that time). We designated these interest rate swaps as cash flow hedges of the forecasted interest payments related to this debt issuance. The pre-tax unrealized loss associated with these derivatives, which is deferred in accumulated other comprehensive loss at August 25, 2013 was $32.1 million.

The net notional amount of these interest rate derivatives at August 25, 2013 was $500.0 million. Hedge ineffectiveness for cash flow hedges may impact net earnings when a change in the value of a hedge does not entirely offset the change in the value of the underlying hedged item. We do not exclude any component of the hedging instrument's gain or loss when assessing ineffectiveness. The ineffectiveness associated with derivatives designated as cash flow hedges from continuing operations was not material to our results of operations in any period presented.

During fiscal 2013, we entered into interest rate swap contracts to hedge a portion of the interest rate risk related to our issuance of long-term debt to help finance the acquisition of Ralcorp. We settled these contracts during the third quarter of fiscal 2013 and

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deferred a $2.2 million gain in other comprehensive income. This gain is being amortized as a component of net interest expense over the lives of the related debt instruments. The unamortized amount at August 25, 2013 was $2.2 million.

Derivatives Designated as Fair Value Hedges

During fiscal 2010, we entered into interest rate swap contracts to hedge the fair value of certain of our senior long-term debt instruments maturing in fiscal 2012 and 2014. We designated these interest rate swap contracts as fair value hedges of the debt instruments.

Changes in fair value of such derivative instruments are immediately recognized in earnings along with changes in the fair value of the items being hedged (based solely on the change in the benchmark interest rate). These gains and losses are classified within selling, general and administrative expenses.

During fiscal 2011, we terminated the interest rate swap contracts and received proceeds of $31.5 million. The cumulative adjustment to the fair value of the debt instruments being hedged is included in long-term debt and is being amortized as a reduction of interest expense over the remaining lives of the debt instruments (through fiscal 2014). At August 25, 2013, the unamortized amount was $6.2 million.

The entire change in fair value of the derivative instruments was included in our assessment of hedge effectiveness.

Economic Hedges of Forecasted Cash Flows

Many of our derivatives do not qualify for, and we do not currently designate certain commodity or foreign currency derivatives to achieve, hedge accounting treatment. We reflect realized and unrealized gains and losses from derivatives used to economically hedge anticipated commodity consumption and to mitigate foreign currency cash flow risk in earnings immediately within general corporate expense (within cost of goods sold). The gains and losses are reclassified to segment operating results in the period in which the underlying item being economically hedged is recognized in cost of goods sold.

Economic Hedges of Fair Values — Foreign Currency Exchange Rate Risk

We may use options and cross currency swaps to economically hedge the fair value of certain monetary assets and liabilities (including intercompany balances) denominated in a currency other than the functional currency. These derivatives are marked-to-market with gains and losses immediately recognized in selling, general and administrative expenses. These substantially offset the foreign currency transaction gains or losses recognized as values of the monetary assets or liabilities being economically hedged change.

Derivative Activity in Our Milling Operations

We also use derivative instruments within our milling operations, which are part of the Commercial Foods segment. Derivative instruments used to economically hedge commodity inventories and forward purchase and sales contracts within the milling operations are marked-to-market such that realized and unrealized gains and losses are immediately included in operating results. The underlying inventory and forward contracts being hedged are also marked-to-market with changes in market value recognized immediately in operating results.

For commodity derivative trading activities within our milling operations that are not intended to mitigate commodity input cost risk, the derivative instrument is marked-to-market each period with gains and losses included in net sales of the Commercial Foods segment. There were no material gains or losses from derivative trading activities in the periods being reported.

All derivative instruments are recognized on the balance sheets at fair value (refer to Note 16 for additional information related to fair value measurements). 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. In accordance with generally accepted accounting principles, we offset certain derivative asset and liability balances, as well as certain amounts representing rights to reclaim cash collateral and obligations to return cash collateral, where master netting agreements provide for legal right of setoff. At August 25, 2013 and May 26, 2013, amounts representing a right to reclaim cash collateral of $15.8 million and $10.2 million, respectively, were included in prepaid expenses and other current assets in our condensed consolidated balance sheets.

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Derivative assets and liabilities and amounts representing a right to reclaim cash collateral or obligation to return cash collateral were reflected in our condensed consolidated balance sheets as follows:

	August 25, 2013	May 26, 2013
Prepaid expenses and other current assets	$78.8	$78.6
Other accrued liabilities	70.3	137.9

The following table presents our derivative assets and liabilities, at August 25, 2013, on a gross basis, prior to the offsetting of $15.6 million to total derivative assets and $31.4 million to total derivative liabilities where legal right of setoff existed:

	Derivative Assets Balance Sheet Location	Fair Value	Derivative Liabilities Balance Sheet Location	Fair Value
Interest rate contracts	Prepaid expenses and other current assets	$8.9	Other accrued liabilities	$41.0
Total derivatives designated as hedging instruments		$8.9		$41.0
Commodity contracts	Prepaid expenses and other current assets	$66.4	Other accrued liabilities	$56.6
Foreign exchange contracts	Prepaid expenses and other current assets	17.5	Other accrued liabilities	4.1
Other	Prepaid expenses and other current assets	1.6	Other accrued liabilities	—
Total derivatives not designated as hedging instruments		$85.5		$60.7
Total derivatives		$94.4		$101.7

The following table presents our derivative assets and liabilities at May 26, 2013, on a gross basis, prior to the setoff of $12.5 million to total derivative assets and $22.7 million to total derivative liabilities where legal right of setoff existed:

	Derivative Assets Balance Sheet Location	Fair Value	Derivative Liabilities Balance Sheet Location	Fair Value
Interest rate contracts	Prepaid expenses and other current assets	$—	Other accrued liabilities	$104.5
Total derivatives designated as hedging instruments		$—		$104.5
Commodity contracts	Prepaid expenses and other current assets	$70.7	Other accrued liabilities	$53.7
Foreign exchange contracts	Prepaid expenses and other current assets	18.4	Other accrued liabilities	2.4
Other	Prepaid expenses and other current assets	2.0	Other accrued liabilities	—
Total derivatives not designated as hedging instruments		$91.1		$56.1
Total derivatives		$91.1		$160.6

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The location and amount of gains (losses) from derivatives not designated as hedging instruments in our condensed consolidated statements of earnings were as follows:

Derivatives Not Designated as Hedging Instruments	Location in Condensed Consolidated Statement of Earnings of Gain (Loss) Recognized on Derivatives	Amount of Gain (Loss) Recognized on Derivatives in Condensed Consolidated Statement of Earnings for the Thirteen Weeks Ende August 25, 2013	August 26, 2012
Commodity contracts	Net sales	$(1.0)	$(0.7)
Commodity contracts	Cost of goods sold	14.7	119.2
Foreign exchange contracts	Cost of goods sold	(1.2)	(4.1)
Commodity contracts	Selling, general and administrative expense	—	0.2
Foreign exchange contracts	Selling, general and administrative expense	0.6	(6.0)
Total gain from derivative instruments not designated as hedging instruments		$13.1	$108.6

As of August 25, 2013, our open commodity contracts had a notional value (defined as notional quantity times market value per notional quantity unit) of $1.8 billion and $1.7 billion for purchase and sales contracts, respectively. As of May 26, 2013, our open commodity contracts had a notional value of $1.8 billion and $1.5 billion for purchase and sales contracts, respectively. The notional amount of our foreign currency forward and cross currency swap contracts as of August 25, 2013 and May 26, 2013 was $373.1 million and $359.0 million, respectively.

We enter into certain commodity, interest rate, and foreign exchange derivatives with a diversified group of counterparties. We continually monitor our positions and the credit ratings of the counterparties involved and limit the amount of credit exposure to any one party. These transactions may expose us to potential losses due to the risk of nonperformance by these counterparties. We have not incurred a material loss due to nonperformance in any period presented and do not expect to incur any such material loss. We also enter into futures and options transactions through various regulated exchanges.

At August 25, 2013, the maximum amount of loss due to the credit risk of the counterparties, had the counterparties failed to perform according to the terms of the contracts, was $67.1 million.

9. SHARE-BASED PAYMENTS

For the first quarter of fiscal 2014, we recognized total stock-based compensation expense (including stock options, restricted stock units, cash-settled restricted stock units, and performance shares) of $17.2 million. For the first quarter of fiscal 2013, we recognized total stock-based compensation expense of $13.1 million. During the first quarter of fiscal 2014, we granted 0.8 million restricted stock units at a weighted average grant date price of $36.73, 0.8 million cash-settled restricted stock units at a weighted average grant date price of $36.89, 3.6 million stock options at a weighted average exercise price of $36.87, and 0.4 million performance shares at a weighted average grant date price of $35.05.

Performance shares are granted to selected executives and other key employees with vesting contingent upon meeting various Company-wide performance goals. The performance goals for the performance periods ending in fiscal 2014 and 2015 are based upon our operating cash flow return on operations, a measure of operating cash flow as a percentage of invested capital and revenue growth measured over a defined performance period, and revenue growth. The performance goals for the performance period ending in fiscal 2016 are based upon our earnings before interest, taxes, depreciation, and amortization ("EBITDA") return on capital measured over the defined performance period. The awards actually earned will range from zero to two hundred twenty percent of the targeted number of performance shares for each of the performance periods. A payout equal to 25% of approved target incentive is required to be paid out if we achieve a threshold level of cash flow return on operations for the performance periods ending in fiscal 2014 and 2015, and a threshold level of EBITDA return on capital for the performance period ending in fiscal 2016. Awards, if earned, will be paid in shares of our common stock. Subject to limited exceptions set forth in the performance share plan, any shares earned will be distributed at the end of the performance period. The value of the performance shares is adjusted based upon the market price of our common stock at the end of each reporting period and amortized as compensation expense over the vesting period.

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The weighted average Black-Scholes assumptions for stock options granted during the first quarter of fiscal 2014 were as follows:

Expected volatility (%)	21.13
Dividend yield (%)	3.24
Risk-free interest rate (%)	1.37
Expected life of stock option (years)	4.91

The weighted average value of stock options granted during the first quarter of fiscal 2014 was $4.71 per option, based upon a Black-Scholes methodology.

10. 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 unit 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	
	August 25, 2013	August 26, 2012
Net income available to ConAgra Foods, Inc. common stockholders:		
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	$143.2	$250.5
Income (loss) from discontinued operations, net of tax, attributable to ConAgra Foods, Inc. common stockholders	1.1	(0.4)
Net income attributable to ConAgra Foods, Inc. common stockholders	$144.3	$250.1
Less: Increase in redemption value of noncontrolling interests in excess of earnings allocated	0.4	0.4
Net income available to ConAgra Foods, Inc. common stockholders	$143.9	$249.7
Weighted average shares outstanding:		
Basic weighted average shares outstanding	421.1	407.1
Add: Dilutive effect of stock options, restricted stock unit awards, and other dilutive securities	7.1	4.9
Diluted weighted average shares outstanding	428.2	412.0

For the first quarter of fiscal 2014, there were 1.7 million stock options outstanding that were excluded from the computation of shares contingently issuable upon exercise of the stock options because exercise prices exceeded the average market value of our common stock during the period. For the first quarter of fiscal 2013, there were 12.9 million stock options excluded from the calculation.

11. INVENTORIES

The major classes of inventories were as follows:

	August 25, 2013	May 26, 2013
Raw materials and packaging	$687.3	$733.2
Work in process	151.6	118.0
Finished goods	1,568.0	1,398.9
Supplies and other	142.9	140.2
Total	$2,549.8	$2,390.3

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12. INCOME TAXES

Our income tax expense from continuing operations for the first quarter of fiscal 2014 and 2013 was $33.9 million and $123.8 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) from continuing operations was 19% and 33% for the first quarter of fiscal 2014 and 2013, respectively. The decrease in the effective tax rate is 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 settlement of a tax issue in Mexico that was previously reserved.

The amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $95.5 million as of August 25, 2013 and $100.0 million as of May 26, 2013. Included in the balance was $8.0 million as of August 25, 2013 and May 26, 2013 for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Any associated interest and penalties imposed would affect the tax rate. The gross unrecognized tax benefits excluded related liabilities for gross interest and penalties of $28.6 million and $30.4 million as of August 25, 2013 and May 26, 2013, respectively.

The net amount of unrecognized tax benefits at August 25, 2013 and May 26, 2013 that, if recognized, would impact the Company's effective tax rate was $59.6 million and $61.8 million, respectively. Recognition of these tax benefits would have a favorable impact on the Company's effective tax rate.

We estimate that it is reasonably possible that the amount of gross unrecognized tax benefits will decrease by up to $8.0 million over the next twelve months due to various federal, state, and foreign audit settlements and the expiration of statutes of limitations.

13. CONTINGENCIES

In fiscal 1991, we acquired Beatrice Company ("Beatrice"). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, our condensed consolidated post-acquisition financial statements reflect liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by us. The litigation includes suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products and the Company as alleged successors to W. P. Fuller Co., a lead paint and pigment manufacturer owned and operated by Beatrice until 1967. Although decisions favorable to us have been rendered in Rhode Island, New Jersey, Wisconsin, and Ohio, we remain a defendant in active suits in Illinois and California. The Illinois suit seeks class-wide relief in the form of medical monitoring for elevated levels of lead in blood. In California, a number of cities and counties have joined in a consolidated action seeking abatement of the alleged public nuisance. A trial of the California case was concluded on September 23, 2013 and a decision from the court is expected in the next 90 days. We have had successful outcomes in every case decided to date and although exposure in the remaining cases is unlikely, it is reasonably possible. However, given the range of potential remedies, it is not possible to estimate this exposure.

The environmental proceedings include litigation and administrative proceedings involving Beatrice's status as a potentially responsible party at 35 Superfund, proposed Superfund, or state-equivalent sites. These sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. Beatrice has paid or is in the process of paying its liability share at 33 of these sites. Reserves for these matters have been established based on our best estimate of the undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required clean-up, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The reserves for Beatrice-related environmental matters totaled $63.0 million as of August 25, 2013, a majority of which relates to the Superfund and state-equivalent sites referenced above. We expect expenditures for Beatrice-related environmental matters to continue for up to 18 years.

In certain limited situations, we will guarantee an obligation of an unconsolidated entity. At the time in which we initially provide such a guarantee, we assess the risk of financial exposure to us under these agreements. We consider the credit-worthiness of the guaranteed party, the value of any collateral pledged against the related obligation, and any other factors that may mitigate our risk. We actively monitor market and entity-specific conditions that may result in a change of our assessment of the risk of loss under these agreements.

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 $7.5 million as of August 25, 2013.

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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 25, 2013, the amount of supplier loans we have effectively guaranteed was $66.2 million. 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 supplier to the onion 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 onion 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 canceling our guarantee. The onion supplier filed for bankruptcy on April 12, 2012 (during the fourth quarter of fiscal 2012). During the second quarter of fiscal 2013, we acquired ownership and all rights to the collateral, consisting of agricultural land and a processing facility, securing the Secured Loan through the bankruptcy proceeding. 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. Based on our estimate of the value of the land and processing facility, we expect to recover the remaining carrying value through our operation or sale of these assets.

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 $21.2 million as of August 25, 2013. 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.

We are a party to a number of lawsuits and claims arising out of the operation of our business. Among these, there are lawsuits, claims, and matters related to the February 2007 recall of our peanut butter products. Among the matters related to the peanut butter recall are litigation we initiated against an insurance carrier to recover our settlement expenditures and defense costs, and an ongoing investigation by the U.S. Attorney's office in Georgia and the Consumer Protection Branch of the Department of Justice. During the first quarter of fiscal 2013 and during fiscal 2012, we recognized charges of $7.5 million and $17.5 million, respectively, in connection with the U.S. Attorney's office investigation. These amounts are in addition to a charge of $24.8 million we recognized during fiscal 2009 in connection with the insurance coverage dispute. During fiscal 2011, we received a favorable opinion in the insurance coverage dispute related to our defense costs, pursuant to which we received a total of $13.2 million, $11.8 million of which was recognized in income in fiscal 2012, and $1.4 million in fiscal 2013. During the fourth quarter of fiscal 2012, a jury verdict was rendered in our favor in the amount of $25.0 million on the claim for disputed coverage, which was subject to appeal and not recognized in income in fiscal 2012. During the fourth quarter of fiscal 2013, we reached a settlement on the insurance dispute, pursuant to which we were paid $25.0 million, in addition to retaining the defense costs previously reimbursed to us. We recognized the $25.0 million in income as a reduction to selling, general and administrative expenses during the fourth quarter of fiscal 2013. With respect to the U.S. Attorney matter, in fiscal 2011, we received formal requests from the U.S. Attorney's office in Georgia seeking a variety of records and information related to the operations of our peanut butter manufacturing facility in Sylvester, Georgia. These requests continue and are related to the previously disclosed June 2007 execution of a search warrant at our facility following the February 2007 recall. We continue to engage in discussions with officials in regard to the investigation.

In June 2009, an accidental explosion occurred at our manufacturing facility in Garner, North Carolina. This facility was the primary production facility for our Slim Jim® branded meat snacks. In June 2009, the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives announced its determination that the explosion was the result of an accidental natural gas release, and not a deliberate act. During the fourth quarter of fiscal 2011, we settled our property and business interruption claims related to the Garner accident with our insurance providers. During the fourth quarter of fiscal 2011, Jacobs Engineering Group Inc., our engineer and project manager at the site, filed a declaratory judgment action against us seeking indemnity for personal injury claims brought against it as a result of the accident. In the first quarter of fiscal 2012, the Court granted our motion for summary judgment and dismissed the suit without prejudice on the basis that the suit was filed prematurely. We will continue to defend this action vigorously. Any exposure in this case is expected to be limited to the applicable insurance deductible.

In April 2010, an accidental explosion occurred at our 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 in the accident. 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 against the Company to one employee by approximately $7 million. While we have insurance policies in place that we believe will cover the full amount of the compensatory and punitive damages apportioned to us (other than a $3 million deductible that we accrued in a prior period), we filed an appeal with the Seventh Federal

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Circuit Court of Appeals on the verdict and the damages in the third quarter of fiscal 2013. Any exposure in this case is expected to be limited to the applicable insurance deductible.
Prior to our ownership of Ralcorp, a lawsuit was brought in the U.S. District Court for the Eastern District of Texas by Frito-Lay North America, Inc. against Ralcorp and Medallion Foods, Inc., a subsidiary of Ralcorp, alleging that certain products manufactured by Medallion infringed Frito-Lays' patents and trademarks and misappropriated trade secrets. After a jury trial during the fourth quarter of fiscal 2013, jurors delivered a verdict in favor of Medallion and Ralcorp on all claims. Frito-Lay has filed a motion for a new trial. We will continue to defend this action vigorously.
After taking into account liabilities recognized for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on our financial condition, results of operations, or liquidity. It is reasonably possible that a change in one of the estimates of the foregoing matters may occur in the future. Costs of legal services associated with the foregoing matters are recognized in earnings as services are provided.

14. PENSION AND POSTRETIREMENT BENEFITS
We have defined benefit retirement plans ("plans") for eligible salaried and hourly employees. Benefits are based on years of credited service and average compensation or stated amounts for each year of service. We also sponsor postretirement plans which provide certain medical and dental benefits ("other postretirement benefits") to qualifying U.S. employees.
Components of pension benefit and other postretirement benefit costs included:

	Pension Benefits	
	Thirteen Weeks Ended	
	August 25, 2013	August 26, 2012
Service cost	$22.3	$20.2
Interest cost	37.8	36.6
Expected return on plan assets	(63.2)	(52.3)
Amortization of prior service cost	0.9	0.8
Curtailment loss	—	0.8
Benefit cost — Company plans	(2.2)	6.1
Pension benefit cost — multi-employer plans	3.1	2.1
Total benefit cost	$0.9	$8.2

	Postretirement Benefits	
	Thirteen Weeks Ended	
	August 25, 2013	August 26, 2012
Service cost	$0.2	$0.1
Interest cost	2.4	2.5
Amortization of prior service cost	(1.8)	(2.1)
Recognized net actuarial loss	1.7	1.5
Total cost	$2.5	$2.0

During the first quarter of fiscal 2014, we contributed $4.5 million to our pension plans and contributed $5.3 million to our other postretirement plans. Based upon the current funded status of the plans and the current interest rate environment, we anticipate making further contributions of approximately $12.3 million to our pension plans for the remainder of fiscal 2014. We anticipate making further contributions of $20.7 million to our other postretirement plans during the remainder of fiscal 2014. These estimates are based on current tax laws, plan asset performance, and liability assumptions, which are subject to change.

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15. STOCKHOLDERS' EQUITY

The following table presents a reconciliation of our stockholders' equity accounts for the thirteen weeks ended August 25, 2013:

	ConAgra Foods, Inc. Stockholders' Equity							
	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at May 26, 2013	567.9	$2,839.7	$1,006.2	$5,129.5	$(196.1)	$(3,514.9)	$98.6	$5,363.0
Stock option and incentive plans			(1.4)	(0.3)		78.8		77.1
Currency translation adjustment					(19.0)		(12.0)	(31.0)
Issuance of treasury shares								—
Repurchase of common shares						(41.7)		(41.7)
Unrealized gain on securities					0.1			0.1
Derivative adjustment, net of reclassification adjustment					45.6			45.6
Activities of noncontrolling interests			(0.4)				0.5	0.1
Pension and postretirement healthcare benefits					(0.2)			(0.2)
Dividends declared on common stock; $0.25 per share				(105.5)				(105.5)
Net income attributable to ConAgra Foods, Inc.				144.3				144.3
Balance at Balance at August 25, 2013	567.9	$2,839.7	$1,004.4	$5,168.0	$(169.6)	$(3,477.8)	$87.1	$5,451.8

16. FAIR VALUE MEASUREMENTS

FASB guidance establishes a three-level fair value hierarchy based upon the assumptions (inputs) used to price assets or liabilities. The three levels of inputs used to measure fair value are as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2 — Observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets, and

Level 3 — Unobservable inputs reflecting our own assumptions and best estimate of what inputs market participants would use in pricing the asset or liability.

The fair values of our Level 2 derivative instruments were determined using valuation models that use market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities. Derivative assets and liabilities included in Level 2 primarily represent commodity and foreign currency option and forward contacts, interest rate swaps, and cross-currency swaps.

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The following table presents our financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of August 25, 2013:

	Level 1	Level 2	Level 3	Net Value
Assets:				
Derivative assets	$11.7	$67.1	$—	$78.8
Available-for-sale securities	2.2	—	—	2.2
Deferred compensation assets	6.9	—	—	6.9
Total assets	$20.8	$67.1	$—	$87.9
Liabilities:				
Derivative liabilities	$—	$70.3	$—	$70.3
Deferred compensation liabilities	40.2	—	—	40.2
Total liabilities	$40.2	$70.3	$—	$110.5

The following table presents our financial assets and liabilities measured at fair value on a recurring basis based upon the level within the fair value hierarchy in which the fair value measurements fall, as of May 26, 2013:

	Level 1	Level 2	Level 3	Net Value
Assets:				
Derivative assets	$13.9	$64.7	$—	$78.6
Available-for-sale securities	6.1	—	—	6.1
Deferred compensation assets	6.9	—	—	6.9
Total assets	$26.9	$64.7	$—	$91.6
Liabilities:				
Derivative liabilities	$—	$137.9	$—	$137.9
Deferred compensation liabilities	35.9	—	—	35.9
Total liabilities	$35.9	$137.9	$—	$173.8

Certain assets and liabilities, including long-lived assets, goodwill, asset retirement obligations, and cost and equity investments are measured at fair value on a nonrecurring basis. There were no significant fair value measurement losses recognized for such assets and liabilities in the periods reported.

The carrying amount of long-term debt (including current installments) was $9.4 billion as of August 25, 2013 and May 26, 2013. Based on current market rates, the fair value of this debt at August 25, 2013 and May 26, 2013, was estimated at $9.8 billion and $10.2 billion, respectively.

17. BUSINESS SEGMENTS AND RELATED INFORMATION

We report our operations in four reporting segments: Consumer Foods, Commercial Foods, Ralcorp Food Group, and Ralcorp Frozen Bakery Products. The Consumer Foods reporting segment includes branded, private brand, and customized food products, which are sold in various retail and foodservice channels, principally in North America. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes. The Commercial Foods reporting segment principally includes commercially branded foods and ingredients, which are sold primarily to foodservice, food manufacturing, and industrial customers. The Commercial Foods segment's primary products include: specialty potato products, milled grain ingredients, and a variety of vegetable products, seasonings, blends, and flavors,which are sold under brands such as Lamb Weston®, ConAgra Mills®, and Spicetec Flavors & Seasonings®. The Ralcorp Food Group reporting segment principally includes private brand food products that are sold in various retail and foodservice channels, primarily in North America. The products include a variety of categories including: cereal products; snacks, sauces, and spreads; and pasta. The Ralcorp Frozen Bakery Products reporting segment principally includes private brand frozen bakery products that are sold in various retail and foodservice channels, primarily in North America. The segment's primary products include: frozen griddle products, including pancakes, waffles, and French toast; frozen biscuits and other frozen pre-baked products such as breads and rolls; and frozen and refrigerated dough products. We do not aggregate operating segments when determining our reporting segments.

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

	Thirteen Weeks Ended	
	August 25, 2013	August 26, 2012
Net sales		
Consumer Foods	$1,995.9	$2,033.0
Commercial Foods	1,263.9	1,269.3
Ralcorp Food Group	703.4	—
Ralcorp Frozen Bakery Products	238.6	—
Total net sales	$4,201.8	$3,302.3
Operating profit		
Consumer Foods	$186.5	$236.0
Commercial Foods	129.8	139.6
Ralcorp Food Group	61.0	—
Ralcorp Frozen Bakery Products	20.7	—
Total operating profit	$398.0	$375.6
Equity method investment earnings		
Consumer Foods	$0.4	$0.1
Commercial Foods	3.7	7.5
Total equity method investment earnings	$4.1	$7.6
Operating profit plus equity method investment earnings		
Consumer Foods	$186.9	$236.1
Commercial Foods	133.5	147.1
Ralcorp Food Group	61.0	—
Ralcorp Frozen Bakery Products	20.7	—
Total operating profit plus equity method investment earnings	$402.1	$383.2
General corporate expense (income)	$126.5	$(42.5)
Interest expense, net	95.6	49.3
Income tax expense	33.9	123.8
Income from continuing operations	$146.1	$252.6
Less: Net income attributable to noncontrolling interests	2.9	2.1
Income from continuing operations attributable to ConAgra Foods, Inc.	$143.2	$250.5

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 (except those related to our milling operations, see Note 8 to our condensed consolidated financial statements) 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 25, 2013	August 26, 2012
Net derivative gains (losses) incurred	$(17.5)	$120.2
Less: Net derivative gains (losses) allocated to reporting segments	3.2	(10.0)
Net derivative gains (losses) recognized in general corporate expenses	$(20.7)	$130.2
Net derivative gains (losses) allocated to Consumer Foods	$2.0	$(3.9)
Net derivative gains (losses) allocated to Commercial Foods	2.0	(6.1)
Net derivative losses allocated to Ralcorp Food Group	(0.4)	—
Net derivative losses allocated to Ralcorp Frozen Bakery Products	(0.4)	—
Net derivative gains (losses) included in segment operating profit	$3.2	$(10.0)

As of August 25, 2013, the cumulative amount of net derivative losses from economic hedges that had been recognized in Corporate and not yet allocated to reporting segments was $29.8 million. This amount reflected net losses of $20.7 million incurred during the thirteen weeks ended August 25, 2013, as well as net losses of $9.1 million incurred prior to fiscal 2014. Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify losses of $25.0 million and $4.8 million to segment operating results in fiscal 2014 and 2015 and thereafter, respectively.

Other Information

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for 17% of consolidated net sales in the first quarter of each of fiscal 2014 and 2013, primarily in the Consumer Foods, Ralcorp Food Group, and Ralcorp Frozen Bakery Products segments.

Wal-Mart Stores, Inc. and its affiliates accounted for approximately 14% and 15% of consolidated net receivables as of August 25, 2013 and May 26, 2013, respectively, primarily in the Consumer Foods, Ralcorp Food Group, and Ralcorp Frozen Bakery Products segments.

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ConAgra Foods, Inc. and Subsidiaries
Part I — Financial Information
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 uncertainty 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 and our ability to promptly and effectively integrate the business of Ralcorp; the timing to consummate the potential joint venture combining the flour milling businesses of ConAgra Foods, Cargill, and CHS and our ability to realize synergies and benefits contemplated by the potential joint venture; the availability and prices of raw materials, including any negative effects caused by inflation or adverse weather conditions; the effectiveness of our product pricing, including any pricing actions and promotional changes; future economic circumstances; industry conditions; our ability to execute our operating and restructuring plans; the success of our cost savings initiatives, innovation, and marketing, including increased marketing investments; the competitive environment and related market conditions; operating efficiencies; the ultimate impact of any product recalls; access to capital; our success in efficiently and effectively integrating acquisitions; 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 & Analysis in our annual report on Form 10-K for the fiscal year ended May 26, 2013. Results for the first quarter of fiscal 2014 are not necessarily indicative of results that may be attained in the future.
Fiscal 2014 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 percent 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 potato and sweet potato products as well as other vegetable, spice, bakery, and grain products to commercial and foodservice customers.
Diluted earnings per share in the first quarter of fiscal 2014 were $0.34, including $0.33 per diluted share from continuing operations and $0.01 per diluted share from discontinued operations. Diluted earnings per share in the first quarter of fiscal 2013 were $0.61. Several significant items affect the comparability of year-over-year results of continuing operations (see “Items Impacting Comparability” below).
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 2014 included the following:

- charges of $16.6 million ($10.5 million after-tax) of integration costs,
- charges of $10.9 million ($6.9 million after-tax) of transaction-related costs,
- charges of $9.5 million ($6.0 million after-tax) under our restructuring plans, 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.

Items of note impacting comparability for the first quarter of fiscal 2013 included the following:

- a charge of $7.5 million ($7.5 million after-tax) in connection with legal matters associated with the 2007 peanut butter recall,
- charges of $6.2 million ($3.8 million after-tax) under our restructuring plans, and
- charges totaling $4.7 million ($2.9 million after-tax) of transaction-related costs.

Acquisitions

In January 2013, we acquired Ralcorp for approximately $5.07 billion ($4.75 billion, net of cash acquired, plus assumed liabilities). Ralcorp manufactures private brands of products including ready-to-eat and hot cereals; nutritional and cereal bars; snack mixes, corn-based chips, and other snack products; crackers and cookies; snack nuts; peanut butter; preserves and jellies; syrups; dressings; frozen griddle products, including: pancakes, waffles, and French toast; frozen biscuits and other frozen pre-baked products such as breads and rolls; frozen and refrigerated dough products; and dry pasta and frozen pasta meals. We present the results of operations of the Ralcorp business in two segments: Ralcorp Food Group and Ralcorp Frozen Bakery Products.

In August 2012, we acquired the P.F. Chang's® and Bertolli® brands frozen meal business from Unilever for $266.9 million in cash. This business is included in the Consumer Foods segment.

Subsequent to the end of the first quarter of fiscal 2014, we agreed to acquire frozen dessert production assets from Harlan Bakeries. We expect the total purchase price to be approximately $39.0 million in cash. The agreement includes the purchase of machinery, operating systems, warehousing/storage, and other assets associated with making frozen fruit pies, cream pies, pastry shells, and loaf cakes. We anticipate final settlement of the purchase to be completed in the second quarter of fiscal 2014.

Divestitures

Subsequent to the end of the first quarter of fiscal 2014, we completed the sale of the assets of the Lightlife® business for $54.7 million in cash. We reflected the results of these operations as discontinued operations for all periods presented. We expect to recognize an estimated pre-tax and after-tax gain of $32.0 million and $15.3 million, respectively, which will be classified as discontinued operations in the second quarter of fiscal 2014.

Restructuring Plans

In fiscal 2013, our Board of Directors authorized a restructuring and integration plan related to the ongoing integration of the operations of Ralcorp (the "Ralcorp Related Restructuring Plan"). The plan is expected to include steps to, among other things, improve operational effectiveness and reduce costs, integrate headquarter functions across the organization, and optimize manufacturing assets and distribution networks, as a result of which we expect to incur material charges for exit and disposal activities. At the time of the acquisition of Ralcorp, we anticipated that we would need to take restructuring actions in integrating Ralcorp and since that time have been evaluating, and continue to evaluate, such actions. We are currently unable, in good faith, to make a determination of an estimate of the total amount or range of amounts for each major type of cost expected to be incurred in connection with the Ralcorp Related Restructuring Plan, an estimate of the total amount or range of amounts expected to be incurred in connection with the Ralcorp Related Restructuring Plan, or an estimate of the amount or range of amounts of the charges that will result in future cash expenditures. We are also currently unable to determine the duration of the Ralcorp Related Restructuring Plan, but expect that the Ralcorp Related Restructuring Plan will be implemented over a multi-year period. In the first quarter of fiscal 2014, we recognized charges of $7.3 million in relation to the Ralcorp Related Restructuring Plan.

In August 2011, we made a decision to reorganize our Consumer Foods sales function and certain other administrative functions within our Commercial Foods and Corporate reporting segments. These actions, collectively referred to as the "Administrative Efficiency Plan", were intended to improve the efficiency and effectiveness of the affected sales and administrative functions. In connection with the Administrative Efficiency Plan, we incurred $18.7 million of charges ($16.8 million of which were cash charges), primarily for severance and costs of employee relocation. At the end of fiscal 2013, the Administrative Efficiency Plan was substantially complete.

In February 2011, our Board of Directors approved a plan designed to optimize our manufacturing and distribution networks (the "Network Optimization Plan"). The Network Optimization Plan consisted of projects that involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize our

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distribution network. In connection with the Network Optimization Plan, we have incurred aggregate pre-tax costs of $76.7 million, including $17.9 million of cash charges. In the first quarter of fiscal 2013, we recognized charges of $3.8 million in relation to the Network Optimization Plan. At the end of fiscal 2013, the Network Optimization Plan was substantially complete.

Prior to our acquisition of Ralcorp, the management of Ralcorp had initiated certain activities designed to optimize Ralcorp's manufacturing and distribution networks. We refer to these actions and the related costs as the "Ralcorp Pre-acquisition Restructuring Plans". These plans involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize the Ralcorp distribution network. We expect to incur $3.7 million of charges that have resulted or will result in cash outflows associated with the Ralcorp Pre-acquistion Restructuring Plans. In the first quarter of fiscal 2014, we recognized charges of $1.3 million in relation to the Ralcorp Pre-acquisition Restructuring Plans. For activities initiated after our acquisition of Ralcorp, refer to the Ralcorp Related Restructuring Plan.

SEGMENT REVIEW

We report our operations in four reporting segments: Consumer Foods, Commercial Foods, Ralcorp Food Group, and Ralcorp Frozen Bakery Products.

Consumer Foods

The Consumer Foods reporting segment includes branded, private brand, and customized food products, which are sold in various retail and foodservice channels, principally in North America. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

Commercial Foods

The Commercial Foods reporting segment principally includes commercially branded foods and ingredients, which are sold primarily to foodservice, food manufacturing, and industrial customers. The segment's primary products include: specialty potato products, milled grain ingredients, and a variety of vegetable products, seasonings, blends, and flavors, which are sold under brands such as ConAgra Mills®, Lamb Weston®, and Spicetec Flavors & Seasonings®.

Ralcorp Food Group

The Ralcorp Food Group reporting segment principally includes private brand food products that are sold in various retail and foodservice channels, primarily in North America. The products include a variety of categories including cereal products; snacks, sauces, and spreads; and pasta.

Ralcorp Frozen Bakery Products

The Ralcorp Frozen Bakery Products reporting segment principally includes private brand frozen bakery products that are sold in various retail and foodservice channels, primarily in North America. The segment's primary products include: frozen griddle products, including pancakes, waffles, and French toast; frozen biscuits and other frozen pre-baked products such as breads and rolls; and frozen and refrigerated dough 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 (except those related to our milling operations, see Note 8 to our condensed consolidated financial statements) 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:

($ in millions)	Thirteen weeks ended August 25, 2013	August 26, 2012
Net derivative gains (losses) incurred	$(17.5)	$120.2
Less: Net derivative gains (losses) allocated to reporting segments	3.2	(10.0)
Net derivative gains (losses) recognized in general corporate expenses	$(20.7)	$130.2
Net derivative gains (losses) allocated to Consumer Foods	$2.0	$(3.9)
Net derivative gains (losses) allocated to Commercial Foods	2.0	(6.1)
Net derivative losses allocated to Ralcorp Food Group	(0.4)	—
Net derivative losses allocated to Ralcorp Frozen Bakery Products	(0.4)	—
Net derivative gains (losses) included in segment operating profit	$3.2	$(10.0)

As of August 25, 2013, the cumulative amount of net derivative losses from economic hedges that had been recognized in Corporate and not yet allocated to reporting segments was $29.8 million. This amount reflected net losses of $20.7 million incurred during the quarter ended August 25, 2013, as well as net losses of $9.1 million incurred prior to fiscal 2014. Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify losses of $25.0 million and $4.8 million to segment operating results in fiscal 2014 and 2015 and thereafter, respectively.

Net Sales

($ in millions) Reporting Segment	Net Sales Thirteen weeks ended August 25, 2013	August 26, 2012	% Inc (Dec)
Consumer Foods	$1,995.9	$2,033.0	(2)%
Commercial Foods	1,263.9	1,269.3	—%
Ralcorp Food Group	703.4	—	N/A
Ralcorp Frozen Bakery Products	238.6	—	N/A
Total	$4,201.8	$3,302.3	27%

Net sales for the first quarter of fiscal 2014 were $4.20 billion, an increase of $899.5 million, or 27%, from the first quarter of fiscal 2013.

Consumer Foods net sales for the first quarter of fiscal 2014 were $2.00 billion, a decrease of $37.1 million, or 2%, compared to the first quarter of fiscal 2013. Results for the first quarter of fiscal 2014 reflected a 2% benefit from acquisitions offset by a 1% decrease from net pricing/mix and a 3% decrease in volume performance from our base businesses (those businesses owned for more than one year). The sales decrease largely reflects difficult conditions for some of the company's customers, as well as weak results for some categories (including frozen foods) negatively impacted by competitor promotional activity. In addition, significant slotting and promotion related to new product launches weighed on pricing/mix.

Sales of products associated with some of our most significant brands, including Act II®, Crunch 'n Munch®, Egg Beaters®, Hunt's®, Reddi-wip®, Rosarita®, Swiss Miss®, and Van Camp's®, grew in the first quarter of fiscal 2014, as compared to the first quarter of fiscal 2013. Significant brands whose products experienced sales declines in the first quarter of fiscal 2014 include Banquet®, Chef Boyardee®, Hebrew National®, Healthy Choice®, Marie Callender's®, and Peter Pan®.

Commercial Foods net sales were $1.26 billion for the first quarter of fiscal 2014, a decrease of $5.4 million, essentially flat, compared to the first quarter of fiscal 2013. In our Lamb Weston specialty potato products business, our net sales in the first quarter of fiscal 2014 were lower reflecting decreased volume of approximately 2%, primarily due to a major foodservice customer that did not renew a sizeable amount of business and timing of vegetable contracts, offset by increased net pricing/mix of 1%. Commercial Foods net sales in the first quarter of fiscal 2014 also reflected the positive impact of the pass-through of $9.1 million of higher wheat prices in the segment's flour milling operations.

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Ralcorp Food Group and Ralcorp Frozen Bakery Products net sales for the first quarter of fiscal 2014 were $703.4 million and $238.6 million, respectively. Sales for both Ralcorp Food Group and Ralcorp Frozen Bakery Products reflected competitive market conditions that have resulted in lower volumes than those achieved in recent periods prior to our ownership of Ralcorp.

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

SG&A expenses totaled $559.4 million for the first quarter of fiscal 2014, an increase of $108.9 million, as compared to the first quarter of fiscal 2013. SG&A expenses for the first quarter of fiscal 2014 reflected the following:

- an increase in salaries and wages of $37.8 million, primarily related to the addition of Ralcorp employees,
- Ralcorp SG&A expenses of $30.3 million not included in the other categories noted,
- an increase in advertising and promotion spending of $17.4 million,
- expenses of $16.6 million related to the integration of Ralcorp,
- transaction-related costs of $10.9 million,
- expenses of $9.2 million in connection with our restructuring plans,
- an increase in stock compensation expense of $4.1 million, and
- a decrease in incentive compensation expense of $3.5 million.

SG&A expenses for the first quarter of fiscal 2013 included expenses of $4.8 million in connection with our restructuring plans and transaction-related costs of $3.4 million.

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

	Operating Profit		
	Thirteen weeks ended		
($ in millions)	August 25,	August 26,	% Inc
Reporting Segment	2013	2012	(Dec)
Consumer Foods	$186.5	$236.0	(21)%
Commercial Foods	129.8	139.6	(7)%
Ralcorp Food Group	61.0	—	N/A
Ralcorp Frozen Bakery Products	20.7	—	N/A

Consumer Foods operating profit for the first quarter of fiscal 2014 was $186.5 million, a decrease of $49.5 million, or 21%, compared to the first quarter of fiscal 2013. Gross profits in Consumer Foods were $28.8 million lower for the first quarter of fiscal 2014 than for the first quarter of fiscal 2013, driven by the impact of lower net sales, discussed above, less profitable mix of products, and moderate inflation in product costs (particularly for proteins, packaging, and dairy); these factors were partially offset by the benefit of supply chain cost savings initiatives. Advertising and promotion expenses increased by $12.7 million in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. The Consumer Foods segment incurred costs of $1.2 million and $5.0 million in connection with our restructuring plans in the first quarter of fiscal 2014 and 2013, respectively, as well as $0.9 million and $1.5 million of transaction-related expenses in the first quarter of fiscal 2014 and 2013, respectively.

For the first quarter of fiscal 2014, operating profit for the Commercial Foods segment was $129.8 million, a decrease of $9.8 million, or 7%, from the first quarter of fiscal 2013. Gross profits in the Commercial Foods segment were $13.7 million lower in the first quarter of fiscal 2014 than in the first quarter of fiscal 2013, driven by the lower net sales in the Lamb Weston® specialty potato business, discussed above, coupled with higher input inflation driven by raw product, ingredients, packaging, natural gas, and electricity, with a slight offset from edible oil.

Ralcorp Food Group operating profit for the first quarter of fiscal 2014 was $61.0 million. Ralcorp Frozen Bakery Products operating profit for the first quarter of fiscal 2014 was $20.7 million.

Interest Expense, Net

Net interest expense was $95.6 million and $49.3 million for the first quarter of fiscal 2014 and 2013, respectively, reflecting the issuance of $3.975 billion of senior debt, outstanding borrowings of $900.0 million under a Term Loan Facility, and $716.0 million of senior debt that was exchanged for Ralcorp senior notes in January 2013 as a result of the Ralcorp acquisition, in addition to the issuance of $750.0 million of senior notes in September 2012.

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Income Taxes

In the first quarter of fiscal 2014 and 2013, our income tax expense was $33.9 million and $123.8 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately 19% for the first quarter of fiscal 2014 and 33% for the first quarter of fiscal 2013. The lower 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 settlement of a tax issue in Mexico that was previously reserved.

We expect our effective tax rate for the full fiscal year of 2014 to be approximately 34%.

Equity Method Investment Earnings

Equity method investment earnings were $4.1 million ($3.7 million in the Commercial Foods segment and $0.4 million in the Consumer Foods segment) and $7.6 million ($7.5 million in the Commercial Foods segment and $0.1 million in the Consumer Foods segment) for the first quarter of fiscal 2014 and 2013, respectively. The decrease represents largely reflects difficult market conditions for a European potato joint venture.

Results of Discontinued Operations

Our discontinued operations generated after-tax income of $1.1 million in the first quarter of fiscal 2014 and a loss of $0.4 million in the first quarter of fiscal 2013.

Earnings Per Share

Diluted earnings per share in the first quarter of fiscal 2014 were $0.34, including $0.33 per diluted share from continuing operations and $0.01 per diluted share from discontinued operations. Diluted earnings per share from continuing operations in the first quarter of fiscal 2013 were $0.61.

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 noncurrent assets. We increased our indebtedness significantly during fiscal 2013 as a result of the Ralcorp acquisition. We are committed to maintaining an investment grade credit rating.

At August 25, 2013, we had a $1.5 billion revolving credit facility scheduled to mature in September 2016. Subsequent to the end of the first quarter of fiscal 2014, the facility was extended to mature in September 2018. The facility has historically been used principally as a back-up facility for our commercial paper program. As of August 25, 2013, there were no outstanding borrowings under the facility. The facility requires that our consolidated funded debt not exceed 75% of our consolidated capital base in the first four quarters commencing on January 29, 2013, 70% in the second four quarters, and 65% thereafter, and that our fixed charges coverage ratio be greater than 1.75 to 1.0. As of August 25, 2013, we were in compliance with these financial covenants.

As of August 25, 2013, we had $280.0 million in borrowings under our commercial paper program. The highest level of borrowings during the first quarter of fiscal 2014 was $323.4 million.

As of the end of the first quarter of fiscal 2014, 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.

In January 2013, we borrowed $1.5 billion under our Term Loan Facility. We are required to repay borrowings under the Term Loan Facility in equal installments of 2.5% per quarter beginning June 1, 2013 with the remainder of the borrowings to be paid on the maturity date unless prepaid in accordance with the terms of the Term Loan Facility. We may prepay borrowings without premium or penalty. As of August 25, 2013, we had $900.0 million outstanding under the Term Loan Facility. The Term Loan Facility matures on January 29, 2018. The Term Loan Facility interest rate is calculated based on LIBOR plus 1.75%. Net

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proceeds were used for the acquisition of Ralcorp. The Term Loan Facility requires that our consolidated funded debt not exceed 75% of our consolidated capital base in the first four quarters commencing on January 29, 2013, 70% in the second four quarters, and 65% thereafter, and that our fixed charges coverage ratio be greater than 1.75 to 1.0. As of May 26, 2013, we were in compliance with these financial covenants. We intend to pay off the remainder of the Term Loan Facility by the end of fiscal 2015.

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 repurchased approximately 1.2 million shares of our common stock for $41.7 million under this program in the first quarter of fiscal 2014, of which $10.8 million was settled subsequent to the end of the first quarter of fiscal 2014. The Company's total remaining share repurchase authorization as of August 25, 2013 was $240.3 million.

Subsequent to the end of the first quarter of fiscal 2014, we completed the sale of the assets of the Lightlife® business for $54.7 million in cash.

Subsequent to the end of the first quarter of fiscal 2014, we agreed to acquire frozen dessert production assets from Harlan Bakeries. We expect the total purchase price to be approximately $39.0 million in cash. We anticipate final settlement of the purchase to be completed in the second quarter of fiscal 2014.

Cash Flows

During the first quarter of fiscal 2014, we generated $10.3 million of cash, which was the net result of $166.1 million generated from operating activities, $177.6 million used in investing activities, $22.6 million obtained in financing activities, and a decrease of $0.8 million in cash due to the effect of changes in foreign currency exchange rates.

Cash generated from operating activities of continuing operations totaled $163.9 million in the first quarter of fiscal 2014, as compared to $327.6 million generated in the first quarter of fiscal 2013. Net income from continuing operations in the first quarter of fiscal 2014 decreased $106.5 million compared to the first quarter of fiscal 2013. We paid approximately $50.0 million higher incentive compensation payments in the first quarter of fiscal 2014 (earned in fiscal 2013) than in the first quarter of fiscal 2013 (earned in fiscal 2012). Operating cash outflows also included severance, incentives, and other benefits associated with the Ralcorp acquisition that were accrued at the time of the acquisition. We spent more cash in the first quarter of fiscal 2014 than in the first quarter of fiscal 2013 for inventory due to the additional seasonal increases required by the Ralcorp business acquired in January 2013.

Cash used in investing activities totaled $177.6 million in the first quarter of fiscal 2014 versus $365.3 million in the first quarter of fiscal 2013. Investing activities of continuing operations in the first quarter of fiscal 2014 consisted primarily of capital expenditures of $181.1 million that included $34.0 million associated with the Ralcorp business, as well as several significant planned plant expansions and improvements. Investing activities of continuing operations in the first quarter of fiscal 2013 included the acquisition of the P.F. Chang's® and Bertolli® brands frozen meal business from Unilever for $266.9 million in cash and capital expenditures of $98.4 million.

Cash generated from financing activities totaled $22.6 million in the first quarter of fiscal 2014 compared to $53.2 million in the first quarter of fiscal 2013. During the first quarter of fiscal 2014, we increased our short-term borrowings by $97.2 million, compared to an increase of $232.0 million in the first quarter of fiscal 2013. Dividends paid during the first quarter of fiscal 2014 of $104.8 million increased compared to $97.9 million in the first quarter of fiscal 2013 due to the higher dividend rate and higher number of shares outstanding. In the first quarter of fiscal 2014 and 2013, we repurchased $30.9 million and $75.0 million, respectively, of our common stock as part of our share repurchase program. Proceeds from employee stock option exercise were $62.9 million and $10.8 million in the first quarter of fiscal 2014 and 2013, respectively. We repaid $2.3 million and $16.0 million of debt in the first quarter of fiscal 2014 and 2013, respectively.

The Company had cash and cash equivalents of $194.2 million at August 25, 2013 and $183.9 million at May 26, 2013, of which $143.1 million at August 25, 2013 and $166.4 million at May 26, 2013 was held in foreign countries. The Company makes an assertion regarding the amount of earnings intended for permanent reinvestment, 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 25, 2013. At August 25, 2013, management believed that sufficient liquidity was available in the United States. However, if additional foreign funds are needed in the United States, the Company has the ability to repatriate additional funds. The repatriation 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 2014 will be approximately $650 million. We intend to refinance the $500 million in senior debt due in April 2014.

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 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 $14.6 million and $15.2 million at August 25, 2013 and May 26, 2013, 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 $29.1 million and term borrowings from banks of $43.9 million as of August 25, 2013. 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 $9.6 billion as of August 25, 2013, were recognized as liabilities in our condensed consolidated balance sheet. Operating lease obligations and unconditional purchase obligations, which totaled $1.6 billion as of August 25, 2013, were not recognized as liabilities in our condensed consolidated balance sheet, in accordance with generally accepted accounting principles.

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A summary of our contractual obligations as of August 25, 2013 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	$9,223.9	$577.7	$1,001.3	$2,660.2	$4,984.7
Capital lease obligations	74.7	8.6	14.0	10.9	41.2
Operating lease obligations	478.3	94.4	146.1	103.7	134.1
Purchase obligations[1]	1,138.4	898.7	145.6	70.8	23.3
Notes payable	282.2	282.2	—	—	—
Total	$11,197.5	$1,861.6	$1,307.0	$2,845.6	$5,183.3

[1] Amount includes open purchase orders of the Ralcorp business, some of which may be cancellable.

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 25, 2013 was approximately 4.3%.

The purchase obligations noted in the table above do not reflect $1.0 billion of open purchase orders or $408.3 million of agreements for goods and services, some of which are not legally binding. These amounts exclude the open purchase orders from Ralcorp that are included in the table above. These purchase orders and agreements are generally settleable in the ordinary course of business in less than one year.

The operating lease obligations noted in the table above have not been reduced by non-cancellable sublease rentals of $35.2 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 25, 2013, 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 liabilities in our consolidated balance sheet, 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 consolidated balance sheet. A summary of our commitments, including commitments associated with equity method investments, as of August 25, 2013 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	$94.9	$71.7	$10.2	$6.5	$6.5
Standby repurchase obligations	5.2	1.6	1.4	1.1	1.1
Other commitments	6.1	6.1	—	—	—
Total	$106.2	$79.4	$11.6	$7.6	$7.6

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 $7.5 million as of August 25, 2013. We have not established a liability for the fresh beef and pork divestiture-related guarantees, as we have determined that the likelihood of our required performance under the guarantees is remote.

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 25, 2013, the amount of supplier loans effectively guaranteed by us was $66.2 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 supplier to the onion 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 onion 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 onion supplier filed for bankruptcy on April 12, 2012 (during the fourth quarter of fiscal 2012). During the second quarter of fiscal 2013, we acquired ownership and all rights to the collateral, consisting of agricultural land and a processing facility, securing the Secured Loan through the bankruptcy proceeding. 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. Based on our estimate of the value of the land and processing facility, we expect to recover the remaining carrying value through our operation or sale of these assets.

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 $21.2 million as of August 25, 2013. 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 25, 2013 was $95.5 million. The net amount of unrecognized tax benefits at August 25, 2013, that, if recognized, would impact our effective tax rate was $59.6 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 26, 2013.

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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 25, 2013. 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 26, 2013.

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. To a lesser extent, we engage in wheat trading activities in the milling operations of our Commercial Foods segment. These trading activities are limited in terms of maximum dollar exposure, as measured by a dollars-at-risk methodology and monitored to ensure compliance.

Interest Rate Risk

From time to time, we use interest rate swaps to manage the effect of interest rate changes on the fair value of our existing debt as well as the forecasted interest payments for the anticipated issuance of debt. During fiscal 2010, we entered into interest rate swap contracts used to effectively convert the interest rates of certain outstanding debt instruments from fixed to variable. During fiscal 2011, we terminated these interest rate swap contracts. As a result of this termination, we received proceeds of $31.5 million. The cumulative adjustment to the fair value of the debt instruments that were hedged, $34.8 million, was included in long-term debt and is being amortized as a reduction of interest expense over the remaining lives of the debt instruments (through fiscal 2014). At August 25, 2013, the unamortized amount was $6.2 million.

During fiscal 2011, we entered into interest rate swap contracts to hedge the interest rate risk related to our forecasted issuance of long-term debt in 2014 (based on the anticipated refinancing of the senior long-term debt maturing at that time). The net notional amount of these interest rate derivatives at August 25, 2013 was $500.0 million. The maximum potential loss associated with these interest rate swap contracts from a hypothetical decrease of 1% in interest rates is approximately $141.9 million. Any such gain or loss, to the extent the hedge was effective, would be deferred in accumulated other comprehensive income and recognized in earnings over the life of the forecasted interest payments associated with the anticipated debt refinancing. At August 25, 2013, we had recognized an unrealized loss of $32.1 million in accumulated other comprehensive income for these derivative instruments.

The carrying amount of long-term debt (including current installments) was $9.4 billion as of August 25, 2013. Based on current market rates, the fair value of this debt at August 25, 2013 was estimated at $9.8 billion. As of August 25, 2013, a 1% increase in interest rates would decrease the fair value of our fixed rate debt by approximately $565.4 million, while a 1% decrease in interest rates would increase the fair value of our fixed rate debt by approximately $641.6 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 25, 2013 and August 26, 2012. 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

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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 25, 2013	Average During Thirteen Weeks Ended August 26, 2012
Energy commodities	$1.4	$1.9
Agriculture commodities	$3.1	$4.4
Other commodities	$3.5	$11.6
Foreign exchange	$1.7	$1.3

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 25, 2013. 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. We acquired Ralcorp on January 29, 2013 and have not yet included Ralcorp in our assessment of the effectiveness of our internal control over financial reporting. Accordingly, pursuant to the SEC's general guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of our disclosure controls and procedures does not include Ralcorp. For the first quarter of fiscal 2014, Ralcorp accounted for $942.0 million of our total net sales and, as of August 25, 2013, had total assets of $8.24 billion.

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.

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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 26, 2013.

As previously disclosed, during the third quarter of fiscal 2013, we were named a defendant in several shareholder derivative class action lawsuits brought in the Circuit Court of the City of St. Louis against directors of Ralcorp alleging breaches of fiduciary obligations by them in connection with their approval of the acquisition of Ralcorp. We were alleged to be an aider and abettor of those breaches. The suits sought injunctive relief, damages, attorney's fees, and other relief. There were other cases pending in the same Court, which were consolidated and made similar allegations against directors of Ralcorp to which we were not named a defendant. All of these cases were settled during the third quarter of fiscal 2013 for immaterial amounts. The settlement of these lawsuits was approved by the Court during the first quarter of fiscal 2014.

As previously disclosed, the U.S. Environmental Protection Agency (the "EPA") sought civil penalties for alleged violations under the Clean Air Act arising out of a subsidiary of Ralcorp's Lodi, California facility. The EPA alleged that the facility exceeded permit limits and failed to conduct source testing in accordance with EPA regulations. The parties to the action entered into a consent decree that required Ralcorp to pay a fine of $0.6 million for the violations. During the first quarter of fiscal 2014, the consent decree was approved by the Eastern District Court of California and the fine was paid.

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.

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 26, 2013 ("Annual Report"). There were no material changes to the risk factors disclosed in our Annual Report during the first quarter of fiscal 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents the total number of shares of common stock purchased during the first quarter of fiscal 2014, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	Total Number of Shares (or units) Purchased	Average Price Paid per Share (or unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Maximum Number of Shares that may yet be Purchased under the Program (1)
May 27 through June 23, 2013	—	$—	—	$ 281,927,000
June 24 through July 21, 2013	593,407	$35.44	593,407	$ 260,898,000
July 22 through August 25, 2013	591,700	$34.89	591,700	$ 240,256,000
Total Fiscal 2014 First Quarter Activity	1,185,107	$35.16	1,185,107	$ 240,256,000

(1) Pursuant to publicly announced share repurchase programs from December 2003, we have repurchased approximately 170.8 million shares at a cost of $4.1 billion through August 25, 2013. In December 2011, the Company's Board of Directors approved a $750.0 million increase to our share repurchase authorization. The

current program has no expiration date.

ITEM 6. EXHIBITS

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

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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 1st day of October, 2013.

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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 25, 2013, 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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