CONAGRA FOODS INC /DE/
Form 10-Q
December 31, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended November 23, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 1-7275

CONAGRA FOODS, INC.

(Exact name of registrant as specified in charter)

Delaware	**47-0248710**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One ConAgra Drive, Omaha, Nebraska	**68102-5001**
(Address of principal executive offices)	**(Zip Code)**

(402) 595-4000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ 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 x

Number of shares outstanding of issuer s common stock, as of December 21, 2008, was 447,108,396.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	November 25, 2007	November 23, 2008	November 25, 2007
Net sales	$ 3,264.3	$ 2,951.2	$ 6,329.9	$ 5,572.3
Costs and expenses:				
Cost of goods sold	2,577.8	2,209.0	5,051.9	4,211.3
Selling, general and administrative expenses	389.9	489.3	758.9	870.8
Interest expense, net	42.7	62.2	92.8	117.0
Income from continuing operations before income taxes and equity method investment earnings	253.9	190.7	426.3	373.2
Income tax expense	84.4	68.6	150.3	129.7
Equity method investment earnings	1.9	12.5	2.8	22.1
Income from continuing operations	171.4	134.6	278.8	265.6
Income (loss) from discontinued operations, net of tax	(3.3)	110.2	331.7	154.6
Net income	$ 168.1	$ 244.8	$ 610.5	$ 420.2
Earnings per share - basic				
Income from continuing operations	$ 0.38	$ 0.28	$ 0.61	$ 0.54
Income from discontinued operations		0.22	0.72	0.32
Net income	$ 0.38	$ 0.50	$ 1.33	$ 0.86
Earnings per share - diluted				
Income from continuing operations	$ 0.38	$ 0.27	$ 0.60	$ 0.54
Income (loss) from discontinued operations	(0.01)	0.23	0.72	0.31
Net income	$ 0.37	$ 0.50	$ 1.32	$ 0.85

See notes to the condensed consolidated financial statements.

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ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(in millions)

(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	**November 25, 2007**	**November 23, 2008**	**November 25, 2007**
Net income	$ 168.1	$ 244.8	$ 610.5	$ 420.2
Other comprehensive income (loss):				
Net derivative adjustment, net of tax		(1.1)		(1.8)
Unrealized gains and losses on available-for-sale securities, net of tax:				
Unrealized holding gains (losses) arising during the period	(0.6)	0.5	(0.9)	0.8
Reclassification adjustment for gains included in net income	0.3		0.3	(3.8)
Currency translation adjustment:				
Unrealized translation gains (losses) arising during the period	(96.1)	34.3	(120.5)	42.3
Reclassification adjustment for net losses included in net income			2.0	
Pension and postretirement healthcare liabilities, net of tax	0.1	1.7	(2.3)	3.4
Comprehensive income	$ 71.8	$ 280.2	$ 489.1	$ 461.1

See notes to the condensed consolidated financial statements.

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ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions except share data)

(unaudited)

	November 23, 2008	May 25, 2008	November 25, 2007
ASSETS			
Current assets			
Cash and cash equivalents	$ 132.1	$ 140.9	$ 140.8
Receivables, less allowance for doubtful accounts of $14.4, $17.6, and $16.5	972.1	890.6	957.1
Inventories	2,280.8	1,931.5	2,048.8
Prepaid expenses and other current assets	455.5	451.6	347.2
Current assets held for sale		2,667.4	2,314.1
Total current assets	3,840.5	6,082.0	5,808.0
Property, plant and equipment	5,160.4	5,023.4	4,852.4
Less accumulated depreciation	(2,594.7)	(2,533.6)	(2,585.1)
Property, plant and equipment, net	2,565.7	2,489.8	2,267.3
Goodwill	3,477.6	3,483.3	3,463.2
Brands, trademarks and other intangibles, net	824.3	816.7	803.4
Other assets	1,062.6	553.2	240.8
Noncurrent assets held for sale		257.5	229.3
	$ 11,770.7	$ 13,682.5	$ 12,812.0
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Notes payable	$ 300.1	$ 599.8	$ 321.7
Current installments of long-term debt	316.8	14.9	15.4
Accounts payable	1,019.5	786.0	920.5
Accrued payroll	175.5	374.2	238.9
Other accrued liabilities	860.0	688.3	781.5
Current liabilities held for sale		1,188.1	1,126.0
Total current liabilities	2,671.9	3,651.3	3,404.0
Senior long-term debt, excluding current installments	2,856.6	3,186.9	3,173.7
Subordinated debt	195.9	200.0	200.0
Other noncurrent liabilities	1,271.7	1,293.0	1,213.4
Noncurrent liabilities held for sale		13.9	16.5
Total liabilities	6,996.1	8,345.1	8,007.6
Commitments and contingencies (Note 12)			
Common stockholders equity			
	2,835.5	2,833.4	2,833.3

Common stock of $5 par value, authorized 1,200,000,000 shares; issued 567,075,215, 566,653,605, and 566,635,803			
Additional paid-in capital	788.1	866.9	835.2
Retained earnings	3,844.9	3,409.5	3,084.5
Accumulated other comprehensive income	165.1	286.5	36.5
Less treasury stock, at cost, 119,984,111, 82,282,300, and 79,239,532 common shares	(2,859.0)	(2,058.9)	(1,985.1)
Total common stockholders equity	4,774.6	5,337.4	4,804.4
	$ 11,770.7	$ 13,682.5	$ 12,812.0

See notes to the condensed consolidated financial statements.

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ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

	Twenty-six weeks ended November 23, 2008	Twenty-six weeks ended November 25, 2007
Cash flows from operating activities:		
Net income	$ 610.5	$ 420.2
Income from discontinued operations	331.7	154.6
Income from continuing operations	278.8	265.6
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	155.2	146.3
Gain on sale of fixed assets	(3.1)	(1.6)
Gain on sale of businesses	(19.7)	
Distributions from affiliates greater (less) than current earnings	4.5	(12.2)
Share-based payments expense	22.8	27.5
Non-cash interest income on payment-in-kind notes	(30.6)	
Other items	(48.7)	67.6
Change in operating assets and liabilities before effects of business acquisitions and dispositions:		
Accounts receivable	(100.3)	(144.3)
Inventory	(339.6)	(405.7)
Prepaid expenses and other current assets	(3.9)	(25.8)
Accounts payable	249.1	184.4
Accrued payroll	(80.5)	(66.5)
Other accrued liabilities	8.7	(29.6)
Net cash flows from operating activities continuing operations	92.7	5.7
Net cash flows from operating activities discontinued operations	(729.5)	(269.5)
Net cash flows from operating activities	(636.8)	(263.8)
Cash flows from investing activities:		
Purchases of marketable securities		(1,351.0)
Sales of marketable securities		1,352.0
Additions to property, plant and equipment	(221.4)	(254.2)
Purchase of leased warehouses		(39.2)
Sale of leased warehouses		35.6
Sale of property, plant and equipment	14.8	14.5
Sale of businesses	29.8	
Purchase of businesses and intangible assets	(76.3)	(122.0)
Increase in investment in affiliates		(0.7)
Notes receivable and other items	1.0	0.6
Net cash flows from investing activities continuing operations	(252.1)	(364.4)
Net cash flows from investing activities discontinued operations	2,253.1	(7.5)
Net cash flows from investing activities	$ 2,001.0	$ (371.9)

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ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (continued)

(in millions)

(unaudited)

	Twenty-six weeks ended November 23, 2008	November 25, 2007
Cash flows from financing activities:		
Net short-term borrowings	$ (285.6)	$ 297.4
Issuance of long-term debt by variable interest entity	20.0	
Repayment of long-term debt	(57.5)	(9.0)
Repurchase of ConAgra Foods common shares	(900.0)	(88.1)
Cash dividends paid	(178.2)	(176.9)
Proceeds from exercise of employee stock options	6.1	14.9
Other items	(8.6)	3.0
Net cash flows from financing activities continuing operations	(1,403.8)	41.3
Net cash flows from financing activities discontinued operations		
Net cash flows from financing activities	(1,403.8)	41.3
Net change in cash and cash equivalents	(39.6)	(594.4)
Discontinued operations cash activity included above:		
Add: Cash balance included in assets held for sale at beginning of period	30.8	4.4
Less: Cash balance included in assets held for sale at end of period		
Cash and cash equivalents at beginning of period	140.9	730.8
Cash and cash equivalents at end of period	$ 132.1	$ 140.8

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 Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the Company, we, us, or our) annual report on Form 10-K for the fiscal year ended May 25, 2008, as updated in the Current Report on Form 8-K filed on November 25, 2008.

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

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

Investments in Unconsolidated Affiliates The investments in and the operating results of 50%-or-less-owned entities not required to be consolidated are included in the consolidated financial statements on the basis of the equity method of accounting or the cost method of accounting, depending on specific facts and circumstances.

We review our investments in unconsolidated affiliates for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary might include the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. Management s assessment as to whether any decline in value is other than temporary is based on our ability and intent to hold the investment and whether evidence indicating the carrying value of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Management generally considers our investments in our equity method investees to be strategic long-term investments. Therefore, management completes its assessments with a long-term viewpoint. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

Cash and Cash Equivalents Cash and all highly liquid investments with an original maturity of three months or less at the date of acquisition, including short-term time deposits and government agency and corporate obligations, are classified as cash and cash equivalents.

Shipping and Handling Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs are included in cost of goods sold.

Comprehensive Income Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains/losses from pension and postretirement health care plans. We generally deem our foreign investments to be essentially permanent in nature and we do not provide for taxes on currency translation adjustments arising from converting the investment in a foreign currency to U.S. dollars. When we determine that a foreign investment is no longer permanent in nature, estimated taxes are provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments. We reclassified $2.0 million of foreign currency translation net losses to net income due to the disposal or substantial liquidation of foreign subsidiaries in the first half of fiscal 2009.

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ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	November 25, 2007	November 23, 2008	November 25, 2007
Net derivative adjustment	$	$ (0.7)	$	$ (1.1)
Unrealized gains (losses) on available-for-sale securities	(0.3)	0.3	(0.5)	0.5
Reclassification adjustment for gains on available-for-sale securities included in net income	0.2		0.2	(2.2)
Pension and postretirement healthcare liabilities	0.6	1.5	3.5	2.9
	$ 0.5	$ 1.1	$ 3.2	$ 0.1

Accounting Changes We adopted Emerging Issues Task Force (EITF) 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Contracts*, as of the beginning of fiscal 2009. EITF 06-4 requires an employer to recognize a liability for future benefits provided to employees under a split-dollar life insurance arrangement. As a result of the implementation of EITF 06-4, we recognized a $6.2 million liability for such future benefits with a corresponding adjustment, net of tax, of $3.9 million to retained earnings.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 were effective as of the beginning of our fiscal 2009. The adoption of SFAS No. 159 had no impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 were effective as of the beginning of our fiscal 2009 for our financial assets and liabilities, as well as for other assets and liabilities that are carried at fair value on a recurring basis in our consolidated financial statements. The FASB has provided for a one-year deferral of the implementation of this standard for other nonfinanical assets and liabilities. Assets and liabilities subject to this deferral include goodwill, intangible assets, and long-lived assets measured at fair value for impairment assessments, and nonfinancial assets and liabilities initially measured at fair value in a business combination. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial position or results of operations. See further discussion in Note 16.

Recently Issued Accounting Pronouncements In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*. This standard requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This statement is effective for our third quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, effective as of the beginning of our fiscal 2010, noncontrolling interests will be classified as equity in our financial statements and income and comprehensive income attributed to the noncontrolling interest will be included in our income and comprehensive income. The provisions of this standard must be applied retrospectively upon adoption. We are currently evaluating the impact of adopting SFAS No. 160 on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of SFAS No. 141(R) are effective for our business combinations occurring on or after June 1, 2009.

Use of Estimates Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues, and expenses as reflected in the consolidated financial statements. Actual results could differ from these estimates.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

2. DISCONTINUED OPERATIONS AND DIVESTITURES

Trading and Merchandising Operations

On March 27, 2008, we entered into an agreement with affiliates of Ospraie Special Opportunities Fund to sell our commodity trading and merchandising operations conducted by ConAgra Trade Group (previously principally reported as the Trading and Merchandising segment). The operations included the domestic and international grain merchandising, fertilizer distribution, agricultural and energy commodities trading and services, and grain, animal, and oil seed byproducts merchandising and distribution business. In June 2008, the sale of the trading and merchandising operations was completed for before-tax proceeds of: 1) approximately $2.2 billion in cash, net of transaction costs (including incentive compensation amounts due to employees due to accelerated vesting), 2) $550 million (face value) of payment-in-kind debt securities issued by the purchaser (the Notes) which were recorded at an initial estimated fair value of $479 million, 3) a short-term receivable of $37 million due from the purchaser, and 4) a four-year warrant to acquire approximately 5% of the issued common equity of the parent company of the divested operations, which has been recorded at an estimated fair value of $1.8 million. We recognized an after-tax gain on the disposition of approximately $294 million in the first half of fiscal 2009.

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

The Notes permit payment of interest in additional Notes. The Notes may be redeemed prior to maturity at the option of the issuer. Until June 23, 2009, the redemption price is 92.5% of face value, plus accrued interest. Thereafter, redemption is at par plus accrued interest. The Notes contain covenants that, among other things, govern the issuer s ability to make restricted payments and enter into certain affiliate transactions. The Notes also provide for the making of mandatory offers to repurchase upon certain change of control events involving the purchaser, their co-investors, or their affiliates. The Notes, which are classified as other assets, have a carrying value of $510 million at November 23, 2008.

During the first quarter of fiscal 2009, we collected $31 million of the short-term receivable due from the purchaser. The remaining $6 million receivable is expected to be collected in the third quarter of fiscal 2009.

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

Knott s Berry Farm® Operations

During the fourth quarter of fiscal 2008, we completed our divestiture of the *Knott s Berry Farm®* (Knott s) jams and jellies brand and operations for proceeds of approximately $55 million, resulting in no significant gain or loss. We reflected the results of these operations as discontinued operations for all periods presented. The assets and liabilities of the divested Knott s business have been reclassified as assets and liabilities held for sale within our consolidated balance sheets for all periods prior to divestiture.

Summary of Operational Results

The summary comparative financial results of the discontinued operations were as follows:

	Thirteen weeks ended	Twenty-six weeks ended

	November 23, 2008	November 25, 2007	November 23, 2008	November 25, 2007
Net sales	$ 0.2	$ 559.7	$ 204.5	$ 893.6
Operating results from discontinued operations before income taxes	2.3	175.1	60.1	245.7
Gain from disposal of businesses	2.0		490.0	
Income before income taxes	4.3	175.1	550.1	245.7
Income tax expense	(7.6)	(64.9)	(218.4)	(91.1)
Income (loss) from discontinued operations, net of tax	$ (3.3)	$ 110.2	$ 331.7	$ 154.6

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ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

The assets and liabilities classified as held for sale as of May 25, 2008 and November 25, 2007 are as follows:

	May 25, 2008	November 25, 2007
Cash and cash equivalents	$ 30.8	$
Receivables, less allowances for doubtful accounts	614.9	532.4
Inventories	1,294.2	1,300.3
Prepaid expenses and other current assets	727.5	481.4
Current assets held for sale	$ 2,667.4	$ 2,314.1
Property, plant and equipment, net	$ 119.0	$ 114.8
Goodwill and other intangibles	17.0	43.2
Other assets	121.5	71.3
Noncurrent assets held for sale	$ 257.5	$ 229.3
Notes payable	$	$
Current installments of long-term debt	0.3	0.3
Accounts payable	596.6	550.2
Accrued payroll and other accrued liabilities	591.2	575.5
Current liabilities held for sale	$ 1,188.1	$ 1,126.0
Senior long-term debt, excluding current installments	$ 1.2	$ 1.3
Other noncurrent liabilities	12.7	15.2
Noncurrent liabilities held for sale	$ 13.9	$ 16.5

Other Divestitures

In July 2008, we completed the sale of our *Pemmican*® beef jerky business for proceeds of approximately $29.4 million, resulting in a pretax gain of approximately $19.4 million ($10.6 million, after tax), reflected in selling, general and administrative expenses. We will also receive the greater of $2 million per year or 10% of the buyer s net sales of *Pemmican*® products for the next five years, not to exceed a total of $25 million. We will continue to provide sales and distribution services to the buyer for a period of five years. Due to our continuing involvement with the business, the results of operations of the *Pemmican*® business have not been reclassified as discontinued operations.

3. ACQUISITIONS

On September 22, 2008, we acquired a 49.99% interest in Lamb Weston BSW, LLC (Lamb Weston BSW or the venture), a potato processing joint venture with Ochoa Ag Unlimited Foods, Inc. (Ochoa), for approximately $46 million in cash. Lamb Weston BSW subsequently distributed $10.0 million of our initial investment to us. This venture is considered a variable interest entity and is consolidated in our financial statements (see Note 4). Based on the initial purchase price allocation, approximately $18 million of the purchase price was allocated to goodwill. This business is included in the Commercial Foods segment.

On August 1, 2008, we acquired Saroni Sugar & Rice, Inc., a distribution company included in the Commercial Foods segment, for approximately $9 million in cash plus assumed liabilities. Approximately $5 million of the purchase price was allocated to brands, trademarks, and other intangibles.

On February 25, 2008, we acquired Watts Brothers, which has farming, processing and warehousing operations, for approximately $132 million in cash plus assumed liabilities of approximately $101 million. The Watts Brothers operations are included in the Commercial Foods segment. Approximately $19 million of the purchase price was allocated to goodwill.

On October 21, 2007, we acquired the manufacturing assets of Twin City Foods, Inc. (Twin City Foods), a potato processing business, for approximately $23 million in cash. These operations are included in the Commercial Foods segment.

On September 5, 2007, we acquired Lincoln Snacks Holding Company, Inc. (Lincoln Snacks) for approximately $50 million in cash plus assumed liabilities. Lincoln Snacks, which is included in the Snacks and Store Brands subsegment of the Consumer Foods segment, offers a variety of snack food brands and private label products. Approximately $20 million of the purchase price was allocated to goodwill and $17 million to other intangible assets.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

On July 23, 2007, we acquired Alexia Foods, Inc. (Alexia Foods) for approximately $50 million in cash plus assumed liabilities. Alexia Foods, which is included in our Frozen Foods subsegment of the Consumer Foods segment, offers premium natural and organic food items including potato products, appetizers, and artisan breads. Approximately $34 million of the purchase price was allocated to goodwill and $19 million to other intangible assets.

Under the purchase method of accounting, the assets acquired and liabilities assumed in acquisitions are recorded at their respective estimated fair values at the date of acquisition. The fair values are subject to refinement as we complete our analyses relative to the fair values at the respective acquisition dates.

4. VARIABLE INTEREST ENTITIES

In September 2008, we entered into a potato processing venture, Lamb Weston BSW. We provide all sales and marketing services to the venture. 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). Commencing on July 30, 2011, or on an earlier date under certain circumstances, we are 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. We have determined that the venture is a variable interest entity and that we are the primary beneficiary of the entity. Accordingly, we consolidate the financial statements of the venture.

We also consolidate the assets and liabilities of several entities from which we lease corporate aircraft. Each of these entities has been determined to be a variable interest entity and we have been determined to be the primary beneficiary of each of these entities.

Due to the consolidation of these variable interest entities, we reflect in our balance sheets:

	November 23, 2008	May 25, 2008	November 25, 2007
Cash and cash equivalents	$ 2.0	$	$
Receivables, net	21.4		
Inventories	1.6		
Property, plant and equipment, net	114.5	51.8	53.3
Goodwill	18.0		
Brands, trademarks and other intangibles, net	0.1		
Total assets	$ 157.6	$ 51.8	$ 53.3
Notes payable	$ 6.8	$	$
Current installments of long-term debt	4.8	3.3	3.2
Accounts payable	3.2		
Accrued payroll	0.3		
Other accrued liabilities	6.1	0.6	0.6
Senior long-term debt, excluding current installments	67.5	50.9	52.6

Other noncurrent liabilities (minority interest)	36.1		
Total liabilities	$ 124.8	$ 54.8	$ 56.4

The liabilities recognized as a result of consolidating these entities do not represent additional claims on our general assets. The creditors of these entities have claims only on the assets of the specific variable interest entities to which they have advanced credit.

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5. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first half of fiscal 2009 was as follows:

	Consumer Foods	Commercial Foods	Total
Balance as of May 25, 2008	$ 3,380.5	$ 102.8	$ 3,483.3
Acquisitions		19.9	19.9
Divestitures	(4.1)		(4.1)
Translation and other	(19.9)	(1.6)	(21.5)
Balance as of November 23, 2008	$ 3,356.5	$ 121.1	$ 3,477.6

Other identifiable intangible assets were as follows:

	November 23, 2008		May 25, 2008		November 25, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	$ 778.3	$	$ 778.3	$	$ 780.8	$
Amortizing intangible assets	65.8	19.8	55.2	16.8	38.2	15.6
	$ 844.1	$ 19.8	$ 833.5	$ 16.8	$ 819.0	$ 15.6

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

Amortizing intangible assets, carrying a weighted average life of approximately 13 years, are principally composed of licensing arrangements and customer relationships. Based on amortizing assets recognized in our balance sheet as of November 23, 2008, amortization expense is estimated to be approximately $5.0 million for each of the next five years.

6. 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 futures and options contracts are used from time to time to reduce the volatility of commodity input prices on items such as natural gas, vegetable oils, proteins, 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 November 23, 2008, we had economically hedged certain portions of our anticipated consumption of commodity inputs using derivative instruments with expiration dates through July 2010.

In order to reduce exposures related to changes in foreign currency exchange rates, when deemed prudent, we enter into forward exchange or option contracts 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.

From time to time, we may use derivative instruments, including interest rate swaps, to reduce exposures related to changes in interest rates. No interest rate swap agreements were outstanding during the periods presented.

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In prior periods, we have designated certain derivatives as fair value hedges or cash flow hedges qualifying for hedge accounting treatment. We discontinued designating derivatives as cash flow hedges during the first quarter of fiscal 2008 and had no fair value hedges during the periods covered by this report.

Economic Hedges of Forecasted Cash Flows

Many of our derivatives do not qualify for, and, as noted above, we are not currently designating any derivatives to achieve hedge accounting treatment. Beginning in the first quarter of fiscal 2009, we began to reflect realized and unrealized gains and losses from derivatives used to hedge anticipated commodity consumption and to mitigate foreign currency cash flow risk in earnings immediately within general corporate expense. The gains and losses are reclassified to segment operating results in the period in which the underlying item being hedged is recognized in cost of goods sold. Prior to the first quarter of fiscal 2009, these derivative gains and losses were recorded immediately in our segment results as a component of cost of goods sold or selling, general and administrative expenses, regardless of when the item being hedged impacted earnings.

Other Derivative Activity (Primarily in the 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 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 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. In the second quarter of fiscal 2009 and 2008, net derivative gains from trading activities of $0.2 million and $3.0 million, respectively, were included in the results of operations for the Commercial Foods segment. In the first half of fiscal 2009 there was no net derivative gain or loss from trading activities included in the results of operations for the Commercial Foods segment. In the first half of fiscal 2008, the net derivative gain from trading activities included in the results of operations for the Commercial Foods segment was $1.7 million.

All derivative instruments are recognized on the balance sheet at fair value. The fair value of derivative assets is recognized within prepaid expenses and other current assets and current assets held for sale, while the fair value of derivative liabilities is recognized within other accrued liabilities and current liabilities held for sale.

The following derivative assets and liabilities are reflected in our balance sheets:

	November 23, 2008	May 25, 2008	November 25, 2007
Prepaid expenses and other current assets	$ 203.4	$ 207.0	$ 61.1
Current assets held for sale		536.6	215.0
Other accrued liabilities	37.2	55.8	55.9
Current liabilities held for sale		301.6	217.3

7. SHARE-BASED PAYMENTS

For the thirteen and twenty-six weeks ended November 23, 2008, we recognized total stock-based compensation expense (including stock options, restricted stock units, performance shares, and restricted cash) of $10.2 million and $22.8 million, respectively. For the thirteen and twenty-six weeks ended November 25, 2007, we recognized total stock-based compensation expense of $14.0 million and $27.5 million, respectively. During the first half of fiscal 2009, we granted 1.0 million restricted stock units at a weighted average grant date price of $21.21, 7.4 million stock options at a weighted average exercise price of $21.21, and 0.5 million performance shares at a weighted average grant date price of $21.26.

The performance shares are granted to selected executives and other key employees with vesting contingent upon the Company meeting various Company-wide performance goals. The performance goals are based upon our earnings before interest and taxes (EBIT) and our return on average invested capital (ROAIC) measured over a defined performance period. The awards actually earned will range from zero to three hundred percent of the targeted number of performance shares granted and be paid in shares of common stock. Subject to limited exceptions set forth in the plan, any shares earned will be distributed at the end of the three-year period. The value of the performance shares granted in fiscal 2009 is adjusted based upon the market price of our 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 half of fiscal 2009 were as follows:

Expected volatility (%)	18.04
Dividend yield (%)	3.29
Risk-free interest rate (%)	3.39
Expected life of stock option (years)	4.66

The weighted average value of stock options granted during the first half of fiscal 2009 was $2.87 per option, based upon a Black-Scholes methodology.

8. EARNINGS PER SHARE

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	**November 25, 2007**	**November 23, 2008**	**November 25, 2007**
Net income:				
Income from continuing operations	$ 171.4	$ 134.6	$ 278.8	$ 265.6
Income (loss) from discontinued operations, net of tax	(3.3)	110.2	331.7	154.6
Net income	$ 168.1	$ 244.8	$ 610.5	$ 420.2
Weighted average shares outstanding:				
Basic weighted average shares outstanding	447.1	487.3	458.5	488.4
Add: Dilutive effect of stock options, restricted stock awards, and other dilutive securities	2.4	3.4	2.5	3.5
Diluted weighted average shares outstanding	449.5	490.7	461.0	491.9

For the second quarter and first half of fiscal 2009, there were 34.5 million and 33.3 million stock options outstanding, respectively, that were excluded from the computation of shares contingently issuable upon the exercise of stock options because exercise prices exceeded the average market value of common stock during the period. For the second quarter and first half of fiscal 2008, there were 17.8 million and 15.1 million stock options, respectively, excluded from the calculation.

The decline in the diluted weighted average shares outstanding in the second quarter and first half of fiscal 2009 resulted principally from our repurchase of 38.4 million shares during the first quarter of fiscal 2009 under an accelerated share repurchase plan.

9. INVENTORIES

The major classes of inventories were as follows:

	November 23, 2008	May 25, 2008	November 25, 2007
Raw materials and packaging	$ 746.9	$ 580.8	$ 726.5
Work in process	120.0	100.0	101.0
Finished goods	1,337.4	1,179.1	1,157.3
Supplies and other	76.5	71.6	64.0
	$ 2,280.8	$ 1,931.5	$ 2,048.8

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10. RESTRUCTURING

2006-2008 Restructuring Plan

In February 2006, our board of directors approved a plan recommended by executive management to simplify our operating structure and reduce our manufacturing and selling, general, and administrative costs (2006-2008 plan). The plan included supply chain rationalization initiatives, the relocation of a divisional headquarters from Irvine, California to Naperville, Illinois, the centralization of shared services, salaried headcount reductions, and other cost-reduction initiatives. The plan was substantially completed by the end of fiscal 2008. The forecasted cost of the plan, as updated through November 23, 2008, was $231.9 million, of which, expenses of $0.4 million was recorded in the first half of fiscal 2009, a benefit of $1.6 million was recorded in fiscal 2008, $103.0 million of expense was recorded in fiscal 2007, and $129.6 million of expense was recorded in the second half of fiscal 2006. We have recorded expenses associated with this restructuring plan, including but not limited to, asset impairment charges, accelerated depreciation (i.e., incremental depreciation due to an asset s reduced estimated useful life), inventory write-downs, severance and related costs, and plan implementation costs (e.g., consulting, employee relocation, etc.). At November 23, 2008, approximately $3.6 million of liabilities related to this plan remained outstanding.

Included in the above estimates are $132.9 million of charges which have resulted or will result in cash outflows and $99.0 million of non-cash charges.

During fiscal 2008, we reassessed certain aspects of our plan to rationalize our supply chain. We determined that we will continue to operate three production facilities that we had previously planned to close. As a result of this determination, previously established reserves, primarily for related severance costs and pension costs, were reversed in fiscal 2008. We are currently evaluating the best use of a new production facility, the construction of which is in progress, in connection with our restructuring plans. We believe, based on our current assessment of likely scenarios, the carrying value of this facility ($40.6 million at November 23, 2008) is recoverable. In the event we determine that the future use of the new facility will not result in recovery of the recorded value of the asset, an impairment charge would be required.

2008-2009 Restructuring Plan

During fiscal 2008, our board of directors approved a plan (2008-2009 plan) recommended by executive management to improve the efficiency of our Consumer Foods operations and related functional organizations and to streamline our international operations to reduce our manufacturing and selling, general, and administrative costs. This plan includes the reorganization of the Consumer Foods operations, the integration of the international headquarters functions into our domestic business, and exiting a number of international markets. These plans are expected to be substantially completed by the end of fiscal 2009. The forecasted cost of this plan, as updated through November 23, 2008, was $42.9 million, of which $9.7 million was recorded during the first half of fiscal 2009 and $27.8 million was recorded in fiscal 2008. We have recorded expenses associated with this restructuring plan, including but not limited to, inventory write-downs, severance and related costs, and plan implementation costs (e.g., consulting, employee relocation, etc.). We anticipate that we will recognize the following pre-tax expenses associated with the 2008-2009 plan in the fiscal 2008 to 2009 timeframe (amounts include charges recognized in the first half of fiscal 2009 and full-year fiscal 2008):

	Consumer Foods	Corporate	Total
Inventory write-downs	$ 2.4	$	$ 2.4
Total cost of goods sold	2.4		2.4

Asset impairment	0.8		0.8
Severance and related costs	17.7	3.7	21.4
Contract termination	4.7		4.7
Plan implementation costs	2.4	4.1	6.5
Goodwill/Brand impairment	0.2		0.2
Other, net	6.9		6.9
Total selling, general and administrative expenses	32.7	7.8	40.5
Consolidated total	$ 35.1	$ 7.8	$ 42.9

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Included in the above estimates are $39.5 million of charges which have resulted or will result in cash outflows and $3.4 million of non-cash charges.

During the second quarter of fiscal 2009, we recognized the following pre-tax charges in our consolidated statement of earnings for the 2008-2009 plan:

	Consumer Foods	Corporate	Total
Severance and related costs	$ (0.4)	$ 0.1	$ (0.3)
Plan implementation costs	1.4	0.4	1.8
Total selling, general and administrative expenses	1.0	0.5	1.5
Consolidated total	$ 1.0	$ 0.5	$ 1.5

During the first half of fiscal 2009, we recognized the following pre-tax charges in our consolidated statement of earnings for the 2008-2009 plan:

	Consumer Foods	Corporate	Total
Severance and related costs	$ 0.1	$ 0.4	$ 0.5
Plan implementation costs	1.9	1.0	2.9
Other, net	6.3		6.3
Total selling, general and administrative expenses	8.3	1.4	9.7
Consolidated total	$ 8.3	$ 1.4	$ 9.7

We recognized the following cumulative (plan inception to November 23, 2008) pre-tax charges related to the 2008-2009 plan in our consolidated statements of earnings:

	Consumer Foods	Corporate	Total
Inventory write-downs	$ 2.4	$	$ 2.4
Total cost of goods sold	2.4		2.4
Asset impairment	0.8		0.8

Severance and related costs	16.9	3.5	20.4
Contract termination	2.3		2.3
Plan implementation costs	2.2	2.3	4.5
Goodwill/Brand impairment	0.2		0.2
Other, net	6.9		6.9
Total selling, general and administrative expenses	29.3	5.8	35.1
Consolidated total	$ 31.7	$ 5.8	$ 37.5

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Liabilities recorded for the various initiatives and changes therein for the thirteen weeks ended November 23, 2008 under the 2008-2009 plan were as follows:

	Balance at August 24, 2008	Costs Paid or Otherwise Settled	Costs Incurred and Charged to Expense	Changes in Estimates	Balance at November 23, 2008
Severance and related costs	$ 10.0	$ (4.5)	$	$ (0.3)	$ 5.2
Plan implementation costs	3.0	(1.9)	1.2	0.6	2.9
Total	$ 13.0	$ (6.4)	$ 1.2	$ 0.3	$ 8.1

11. INCOME TAXES

Our income tax expense for the second quarter of fiscal 2009 and 2008 was $84.4 million and $68.6 million, respectively. Income tax expense for the first half of fiscal 2009 and 2008 was $150.3 million and $129.7 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 33% and 35% for the second quarter and first half of fiscal 2009, respectively, and 34% and 33% for the second quarter and first half of fiscal 2008, respectively.

The amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $73.8 million as of November 23, 2008, $75.8 million as of May 25, 2008, and $124.0 million as of November 25, 2007. The net amount of unrecognized tax benefits at November 23, 2008, May 25, 2008, and November 25, 2007 that, if recognized, would impact the Company s effective tax rate was $50.0 million, $46.2 million, and $40.0 million, respectively. Recognition of these tax benefits would have a favorable impact on the Company s effective tax rate. Gross unrecognized tax benefits exclude related liabilities for gross interest and penalties of $13.7 million, $21.8 million, and $17.7 million as of November 23, 2008, May 25, 2008, and November 25, 2007, respectively.

We estimate that it is reasonably possible that the amount of gross unrecognized tax benefits will decrease by $3 million to $7 million over the next twelve months due to various federal, state, and foreign audit settlements and the expiration of statutes of limitations.

12. 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 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 public nuisance and personal injury 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, and Wisconsin, we remain a defendant in active suits in Illinois, Ohio, and California. The Illinois suit seeks class-wide relief in the form of medical monitoring for elevated levels of lead in blood. The State of Ohio seeks abatement of the alleged nuisance and unspecified damages. In California, a number of cities and counties have joined in a consolidated action seeking abatement of the alleged public nuisance.

The environmental proceedings include litigation and administrative proceedings involving Beatrice s status as a potentially responsible party at 34 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 32 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 cleanup, the known volumetric contribution of Beatrice and other potentially responsible parties, and our experience in remediating sites. The reserves for Beatrice environmental matters totaled $91.5 million as of November 23, 2008, a majority of which relates to the Superfund and state-equivalent sites referenced above. Expenditures for these matters are expected to continue for a period of up to 20 years.

In 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 (e.g., letters of credit from a financial institution). We periodically monitor market and entity-specific conditions which may result in a change of our assessment of our risk of loss under these agreements.

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We have outstanding guarantees of various trade obligations of the divested Trading and Merchandising business (now operating as the Gavilon Group, LLC, Gavilon). The guarantees were in place prior to the divestiture and are in the process of being released by the trade counterparties. The nominal amount of these guarantees was $37 million at November 23, 2008. We have not established a liability in connection with these guarantees, as we believe the likelihood of financial exposure to us under these guarantees is remote. During this transitional period, Gavilon is contractually required to, and has, obtained letters of credit under their financing facilities (led by JP Morgan Chase) for our benefit, the effect of which is to effectively mitigate any financial exposure to us from the guarantees. We also guarantee payment of certain railcar leases of Gavilon; the railcar leases were in place prior to the divestiture and the parties are working with the lessors to secure the Company s release. The remaining terms of these lease agreements do not exceed ten years and the maximum amount of future payments we have guaranteed was $5 million as of November 23, 2008. 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 guarantee certain leases and other commercial obligations resulting from our fresh beef and pork divestiture. The remaining terms of these arrangements do not exceed seven years and the maximum amount of future payments we have guaranteed is approximately $19.9 million as of November 23, 2008. We have also guaranteed the performance of the divested fresh beef and pork business with respect to a hog purchase contract. The hog purchase contract requires the fresh beef and pork business to purchase a minimum of approximately 1.2 million hogs annually through 2014. The contract stipulates minimum price commitments, based in part on market prices and, in certain circumstances, also includes price adjustments based on certain inputs. We have not established a liability for these guarantees. 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 November 23, 2008, the amount of supplier loans effectively guaranteed by us was approximately $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 are a party to a supply agreement with an onion processing company. We have guaranteed repayment of a loan of this supplier, under certain conditions. At November 23, 2008, the amount of this loan was $25 million. In the event of default on this loan by the supplier, we have the contractual right to purchase the loan from the lender, thereby giving us the rights to underlying collateral. We have not established a liability in connection with these guarantees, as we believe the likelihood of financial exposure to us under this agreement is remote.

We are 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. We believe that the ultimate resolution of these lawsuits and claims will not have a material adverse effect on our financial condition, results of operations, or liquidity. On June 28, 2007, officials from the Food and Drug Administration s Office of Criminal Investigations executed a search warrant at our peanut butter manufacturing facility in Sylvester, Georgia, to obtain a variety of records and information relating to plant operations. We have cooperated with officials in regard to the investigation.

After taking into account liabilities recorded for all of the foregoing 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. Costs of legal services are recognized in earnings as services are provided.

13. 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 benefits) to qualifying U.S. employees.

We historically had used February 28 as the measurement date for our plans. Beginning May 28, 2007, we elected to early adopt the measurement date provisions of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. These provisions require the measurement date for plan assets and liabilities to coincide with the sponsor s fiscal year-end. We used the alternative method for adoption. As a result, during the first quarter of fiscal 2008 we recorded a decrease to retained earnings of approximately $11.7 million, net of tax, and an increase to accumulated other comprehensive income of approximately $1.6 million, net of tax, representing the periodic benefit cost for the period from March 1, 2007 through our fiscal 2007 year-end.

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Components of pension benefit and other postretirement benefit costs included:

	Pension Benefits			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	November 25, 2007	November 23, 2008	November 25, 2007
Service cost	$ 12.7	$ 14.9	$ 25.6	$ 29.9
Interest cost	35.3	33.4	70.6	66.7
Expected return on plan assets	(39.6)	(37.2)	(79.2)	(74.3)
Amortization of prior service cost	0.8	0.9	1.6	1.7
Recognized net actuarial loss	0.5	2.1	1.0	4.2
Benefit cost - Company plans	9.7	14.1	19.6	28.2
Pension benefit cost - multi-employer plans	2.5	2.9	4.8	4.7
Total benefit cost	$ 12.2	$ 17.0	$ 24.4	$ 32.9

	Postretirement Benefits			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2008	November 25, 2007	November 23, 2008	November 25, 2007
Service cost	$ 0.2	$ 0.2	$ 0.4	$ 0.5
Interest cost	5.8	5.4	11.5	10.7
Expected return on plan assets	(0.1)	(0.1)	(0.1)	(0.1)
Amortization of prior service cost	(2.8)	(2.9)	(5.6)	(5.8)
Recognized net actuarial loss	2.4	3.0	4.9	6.0
Total cost - Company plans	$ 5.5	$ 5.6	$ 11.1	$ 11.3

During the second quarter and first half of fiscal 2009, we contributed $2.3 million and $4.5 million, respectively, to our pension plans and contributed $9.2 million and $17.6 million, respectively, 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 $4.6 million to our pension plans for the remainder of fiscal 2009. We anticipate making further contributions of $19.4 million to our other postretirement plans during the remainder of fiscal 2009. These estimates are based on current tax laws, plan asset performance, and liability assumptions, which are subject to change.

14. LONG-TERM DEBT

During the second quarter of fiscal 2009, we retired approximately $6.1 million of 7.125% senior long-term debt due October 2026 and $4.1 million of 9.75% senior subordinated long-term debt due March 2021, prior to the maturity of the notes, resulting in no significant gain or loss.

During the first quarter of fiscal 2009, we retired approximately $21.5 million of 7.125% senior long-term debt due October 2026 and $17.9 million of 7% senior long-term debt due October 2028, prior to the maturity of the notes, resulting in no significant gain or loss.

Included in current installments of long-term debt is $300 million of 6.7% senior debt due August 2027 due to the existence of a put option that is exercisable by the holders of the debt from June 1, 2009 to July 1, 2009. If the put option is not exercised by the holders of the debt, we would reclassify the $300 million balance to senior long-term debt in the first quarter of fiscal 2010, when the put option has expired.

In September 2008, we formed a potato processing venture, Lamb Weston BSW, with Ochoa Ag Unlimited Foods, Inc. We have determined that the venture is a variable interest entity and that we are the primary beneficiary of the entity. Accordingly, we consolidate the financial statements of the venture. Lamb Weston BSW entered into a loan agreement with a bank for $20.0 million of 4.34% senior long-term debt due September 2018. The liabilities recognized as a result of consolidating this entity do not represent additional claims on our general assets. The creditors of this entity have claims only on the assets of Lamb Weston BSW.

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The carrying amount of long-term debt (including current installments) was $3.37 billion as of November 23, 2008. Based on market rates, the fair value of this debt at November 23, 2008 was $3.22 billion.

15. ACCELERATED SHARE REPURCHASE PROGRAM

We initiated an accelerated share repurchase program during the first quarter of fiscal 2009. We paid $900 million and have received 38.4 million shares under this program, to date. Under certain circumstances, we may receive additional shares, not to exceed 5.6 million shares, under the program in the second half of fiscal 2009 at no additional cost to us. Under certain circumstances, the likelihood of which we have determined to be remote, we could be required to surrender shares received to date under this program.

16. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 were effective as of the beginning of our fiscal 2009 for our financial assets and liabilities, as well as for other assets and liabilities that are carried at fair value on a recurring basis in our consolidated financial statements. The FASB has provided for a one-year deferral of the implementation of this standard for other nonfinanical assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial position or results of operations.

SFAS No. 157 establishes a three-level fair value hierarchy based upon the assumptions (inputs) used to price assets or liabilities. The hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs. 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

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 following table presents our financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of November 23, 2008:

	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	$ 14.2	$ 189.2	$	$ 203.4
Available for sale securities	1.0			1.0
Deferred compensation assets	8.1			8.1

Total assets	$ 23.3	$ 189.2	$	$ 212.5
Liabilities:				
Derivative liabilities	$	$ 37.2	$	$ 37.2
Deferred and share-based compensation liabilities	26.0			26.0
Total liabilities	$ 26.0	$ 37.2	$	$ 63.2

17. RELATED PARTY TRANSACTIONS

Sales to affiliates (equity method investees) of $0.4 million and $0.9 million for the second quarter and first half of fiscal 2009, respectively, are included in net sales. Sales to affiliates (equity method investees) of $1.4 million and $2.4 million for the second quarter and first half of fiscal 2008, respectively, are included in net sales. We received management fees from affiliates of $4.6 million and $8.9 million in the second quarter and first half of fiscal 2009, respectively, while we received management fees from affiliates of $4.2 million and $7.9 million in the second quarter and first half of fiscal 2008, respectively. Accounts receivable from affiliates totaled $0.7 million, $3.2 million, and $3.5 million at November 23, 2008, May 25, 2008, and November 25, 2007, respectively, of which $3.0 million and $1.5 million are included in current assets held for sale at May 25, 2008 and November 25, 2007, respectively. Accounts payable to affiliates totaled $16.6 million, $15.6 million, and $13.0 million at November 23, 2008, May 25, 2008, and November 25, 2007, respectively.

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For the Twenty-six Weeks ended November 23, 2008 and November 25, 2007

(columnar dollars in millions except per share amounts)

18. BUSINESS SEGMENTS AND RELATED INFORMATION

Historically, we reported our results of operations in three segments: the Consumer Foods segment, the Food and Ingredients segment, and the International Foods segment. During the first quarter of fiscal 2009, we completed the assimilation of the international operations primarily into the domestic Consumer Foods business and completed the transition of the direct management of the Consumer Foods reporting segment to the Chief Executive Officer. Accordingly, we have begun to report our operations in two reporting segments: Consumer Foods and Commercial Foods. The majority of the former International Foods segment operations are now managed within the Consumer Foods segment. Beginning in the first quarter of fiscal 2009, we began including the earnings (losses) from equity method investments in segment results below operating profit. Fiscal 2008 financial information has been conformed to reflect these changes.

Consumer Foods

The Consumer Foods reporting segment includes branded, private label, 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 segment is comprised of and managed through five subsegments as described below:

Grocery Foods North America includes branded and customized refrigerated or shelf-stable food products that are sold in various retail and foodservice channels across the United States. Major brands include: *Angela Mia*®, *Chef Boyardee*®, *Egg Beaters*®, *Healthy Choice*® Fresh Mixers, *Hebrew National*®, *Hunt s*® , *Manwich*®, *PAM*®, *Peter Pan*®, *Snack Pack*®, *Reddi-wip*®, *Rosarita*®, *Ro*Tel*®, *Swiss Miss*®, and *Van Camp s* ®. The segment also includes the Consumer Foods businesses in Mexico and Canada which distribute packaged foods that are both locally manufactured and imported from the United States.

Frozen Foods includes branded and customized frozen food products that are sold in various retail and foodservice channels across the United States. Major brands include: *Alexia*®, *Banquet*®, *Healthy Choice*®, *Kid Cuisine*®, and *Marie Callender s*®.

Snacks and Store Brands includes branded popcorn, meats, seeds, and specialty snacks, as well as private label food products that are sold in various retail and foodservice channels across the United States. Major brands include: *ACT II*®, *DAVID*®, *Orville Redenbacher s*®, and *Slim Jim*®.

Enabler Brands includes national and regional branded food products across shelf-stable, refrigerated, and frozen temperature classes. Products are sold in various retail and foodservice channels across the United States. Major brands include: *Blue Bonnet*®, *La Choy*®, *Libby s*®, *The Max*®, *Parkay*®, and *Wesson*®.

Domestic Export includes branded shelf-stable food products sold through distributors in various markets throughout the world.

The Consumer Foods supply chain and order-to-cash functions are centrally managed and largely integrated. Accordingly, we do not maintain balance sheets at the subsegment level. Selling, general and administrative expenses, other than advertising and promotion, are managed at the primary segment level, and as such, we do not separately allocate selling, general and administrative expenses other than advertising and promotion expenses to the Consumer Foods subsegments.

Commercial Foods

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

Spicetec® to food processors.

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Intersegment sales have been recorded at amounts approximating market. Operating profit for each of the primary 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.

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(columnar dollars in millions except per share amounts)

	Thirteen weeks ended November 23, 2008	Thirteen weeks ended November 25, 2007
Net sales		
Consumer Foods:		
Grocery Foods North America	$ 731.7	$ 714.0
Frozen Foods	458.3	453.0
Snacks and Store Brands	379.2	352.1
Enabler Brands	430.6	387.3
Domestic Export	46.7	47.4
Other	(3.7)	2.4
Total Consumer Foods	2,042.8	1,956.2
Commercial Foods	1,221.5	995.0
Total net sales	$ 3,264.3	$ 2,951.2
Profit contribution margin (Net sales, less cost of goods sold and advertising and promotion)		
Consumer Foods:		
Grocery Foods North America	$ 186.5	$ 201.5
Frozen Foods	89.5	72.6
Snacks and Store Brands	83.5	74.6
Enabler Brands	61.9	63.7
Domestic Export	12.5	9.1
Other	(2.1)	32.9
Total Consumer Foods	431.8	454.4
Commercial Foods	208.8	179.5
Total profit contribution margin	$ 640.6	$ 633.9
Selling, general and administrative expenses (except advertising and promotion)		
Consumer Foods	$ 179.3	$ 207.3
Commercial Foods	53.3	47.7
Total selling, general and administrative expenses at segments (except advertising and promotion)	$ 232.6	$ 255.0
Operating profit		
Consumer Foods	$ 252.5	$ 247.1
Commercial Foods	155.5	131.8
Total operating profit	$ 408.0	$ 378.9
Equity method investment earnings		
Consumer Foods	$ 0.8	$ 0.4

Commercial Foods		1.1		12.1
Total equity method investment earnings	$	1.9	$	12.5
Operating profit plus equity method investment earnings				
Consumer Foods	$	253.3	$	247.5
Commercial Foods		156.6		143.9
Total operating profit plus equity method investment earnings	$	409.9		391.4
General corporate expenses	$	111.4	$	126.0
Interest expense, net		42.7		62.2
Income tax expense		84.4		68.6
Income from continuing operations	$	171.4	$	134.6

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	Twenty-six weeks ended	
	November 23, 2008	November 25, 2007
Net sales		
Consumer Foods:		
Grocery Foods North America	$ 1,412.5	$ 1,328.7
Frozen Foods	876.9	847.7
Snacks and Store Brands	738.7	691.8
Enabler Brands	794.4	710.0
Domestic Export	94.6	90.9
Other	(5.9)	(1.9)
Total Consumer Foods	3,911.2	3,667.2
Commercial Foods	2,418.7	1,905.1
Total net sales	$ 6,329.9	$ 5,572.3
Profit contribution margin (Net sales, less cost of goods sold and advertising and promotion)		
Consumer Foods:		
Grocery Foods North America	$ 360.5	$ 345.3
Frozen Foods	152.3	143.2
Snacks and Store Brands	150.9	156.4
Enabler Brands	96.3	118.4
Domestic Export	24.2	15.4
Other	(4.2)	40.6
Total Consumer Foods	780.0	819.3
Commercial Foods	386.8	342.3
Total profit contribution margin	$ 1,166.8	$ 1,161.6
Selling, general and administrative expenses (except advertising and promotion)		
Consumer Foods	$ 340.4	$ 384.9
Commercial Foods	98.5	89.9
Total selling, general and administrative expenses at segments (except advertising and promotion)	$ 438.9	$ 474.8
Operating profit		
Consumer Foods	$ 439.6	$ 434.4
Commercial Foods	288.3	252.4
Total operating profit	$ 727.9	$ 686.8
Equity method investment earnings		
Consumer Foods	$ 2.1	$ 0.5

Commercial Foods		0.7		21.6
Total equity method investment earnings	$	2.8	$	22.1
Operating Profit and equity method investment earnings				
Consumer Foods	$	441.7	$	434.9
Commercial Foods		289.0		