

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A (AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended November 28, 2004

OR

**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 No

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

Yes No

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

EXPLANATORY NOTE

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

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

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

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

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

The company also made errors in 1) recording deferred taxes resulting in net overstatement of income tax expense in years prior to fiscal 2002; 2) the calculation of fiscal 2003 and fiscal 2004 tax expense which resulted in the company recognizing

tax expense or benefits related to certain transactions in the incorrect periods; and 3) calculating the reserve for state tax contingencies, principally related to years prior to fiscal 2003.

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

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

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

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

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

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

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

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

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

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

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

Part I Financial Information**Item 1. Condensed Consolidated Financial Statements****ConAgra Foods, Inc. and Subsidiaries****Condensed Consolidated Statements of Earnings**

(in millions except per share amounts)

(unaudited)

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

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(in millions)

(unaudited)

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

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(dollars in millions)

(unaudited)

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

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Less unearned restricted stock and value of 0, 1,062,793 and
5,700,217 common shares held in Employee Equity Fund

Total common stockholders' equity	4,812.2	4,793.9	4,882.9
	\$ 14,205.8	\$ 14,222.2	\$ 14,569.9

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

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

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(columnar dollars in millions except per share amounts)

1. Accounting Policies

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

The unaudited financial information reflects all adjustments (consisting of normal and recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the company) fiscal 2004 annual report on Form 10-K/A.

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

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

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

equivalents over the period of restriction.

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(columnar dollars in millions except per share amounts)

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

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

Comprehensive Income Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments and changes, if any, in the minimum pension liability. The company deems its foreign investments to be permanent in nature and does not provide for taxes on currency translation adjustments arising from converting the investment in a foreign currency to U.S. dollars.

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

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

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

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(columnar dollars in millions except per share amounts)

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

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

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

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

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(columnar dollars in millions except per share amounts)

2. Discontinued Operations and Divestitures

Chicken Business Divestiture

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

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

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

(\$ in millions)

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

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

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(columnar dollars in millions except per share amounts)

UAP North America Divestiture

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

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

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

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

Spanish Feed and Portuguese Poultry Divestiture

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

Fresh Beef and Pork Divestitures

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

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

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

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

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

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

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

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3. Goodwill and Other Identifiable Intangible Assets

Goodwill by reporting segment was as follows:

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

Other identifiable intangible assets were as follows:

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

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

4. Derivative Financial Instruments

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

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

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

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

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

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

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5. Earnings Per Share

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	November 23, 2003	November 28, 2004	November 23, 2003
Net income:				
Income from continuing operations before cumulative effect of change in accounting	\$ 244.7	\$ 236.6	\$ 377.7	\$ 366.9
Income (loss) from discontinued operations, net of tax	(5.1)	32.2	(3.4)	71.5
Cumulative effect of change in accounting				(11.7)
Net income	\$ 239.6	\$ 268.8	\$ 374.3	\$ 426.7
Weighted Average Shares Outstanding:				
Basic weighted average shares outstanding	513.7	530.7	515.7	530.4
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	3.8	1.1	4.0	1.3
Diluted weighted average shares outstanding	517.5	531.8	519.7	531.7

At the end of the second quarter of fiscal 2005 and 2004, there were 7.6 million and 14.6 million stock options outstanding, respectively, 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 common stock during the period.

6. Inventories

The major classes of inventories are as follows:

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	November 28, 2004		May 30, 2004		November 23, 2003
Raw materials and packaging	\$ 1,306.1	\$	1,132.2	\$	1,361.6
Work in progress	131.0		75.0		117.7
Finished goods	1,312.1		1,201.5		1,285.6
Supplies and other	212.4		172.2		413.9
	\$ 2,961.6	\$	2,580.9	\$	3,178.8

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7. Operational Efficiency Initiatives

As part of efforts to improve the company's cost structure, margins and competitive position, the company has implemented a series of initiatives to better align and utilize the company's collective resources beginning in the second quarter of fiscal 2004 and continuing in fiscal 2005. The specific initiatives include:

elimination of duplicative costs and overhead,

consolidation of selected manufacturing plants and support functions,

efforts to streamline and improve the company's ability to do business with company customers, distributors and brokers, and

realignment of business organizations.

As a result of the above initiatives, the company is recognizing expenses associated with employee termination, accelerated depreciation on fixed assets, equipment/employee relocation, asset impairment and other related activities. During the first half of fiscal 2005 and 2004, the company recognized charges associated with its operational efficiency initiatives as follows:

(in millions)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	November 23, 2003	November 28, 2004	November 23, 2003
Retail Products	\$ 4.0	\$ 4.0	\$ 12.5	\$ 7.0
Foodservice Products	(0.7)		4.3	
Food Ingredients	0.2	6.8	0.3	6.8

Total	\$	3.5	\$	10.8	\$	17.1	\$	13.8
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The company has accrued expenses of \$9.0 million for employee termination costs on its balance sheet as of November 28, 2004.

During the remainder of fiscal 2005, the company anticipates it will incur additional expenses associated with its cost saving initiatives of approximately \$5.5 million.

8. Income Taxes

In September 2003, the company reached an agreement with the Internal Revenue Service (IRS) with respect to the IRS 's examination of the company 's tax returns for fiscal years 1996 through 1999. As a result of the favorable resolution of these matters, the company reduced income tax expense by \$27.0 million during the first quarter of fiscal 2004. Certain tax authorities have proposed adjustments for later years, some of which are being contested by the company. The company believes that it has made adequate provisions for income taxes payable.

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9. Contingencies

In fiscal 1991, the company acquired Beatrice Company (Beatrice). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, the consolidated post-acquisition financial statements of the company reflect significant 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 the company. The environmental proceedings include litigation and administrative proceedings involving Beatrice's status as a potentially responsible party at 39 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 27 of these sites. Reserves for these matters have been established based on the company's best estimate of its 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 its experience in remediating sites. The reserves for Beatrice environmental matters totaled \$112.2 million as of November 28, 2004, a majority of which relates to the Superfund and state equivalent sites referenced above. Expenditures for these matters are expected to occur over a period of 5 to 20 years.

The results for the twenty-six weeks ended November 23, 2003 include litigation expense related to a choline chloride joint venture with E.I. du Pont Nemours and Co. (DuPont) that was sold in 1997. Subsequent to the sale, civil antitrust lawsuits against DuPont, the company and the venture were filed in various federal and state courts. In connection with the settlement of certain of these cases and the remaining civil actions, the company recorded a \$25 million pre-tax charge against earnings in the first half of fiscal 2004 as an additional reserve for these matters. The litigation expenses are considered general corporate expenses.

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In certain limited situations, the company will guarantee an obligation of an unconsolidated entity. Currently, the company guarantees certain obligations primarily associated with leases entered into by certain of its equity method investees and the fresh beef and pork business. Under these arrangements, the company is obligated to perform under these leases (i.e., make the lease payments) should the primary obligor be unable to perform. Most of these guarantees resulted from the company's fresh beef and pork divestiture. The leases have terms not exceeding 11 years and the maximum amount of future payments the company has guaranteed is approximately \$48.9 million as of November 28, 2004. The company has also assigned a hog purchase contract to the beef and pork business which has indemnified the company for all liabilities under the contract. The company has guaranteed the performance of the fresh beef and pork business with respect to the 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.

On June 22, 2001, the company filed an amended annual report on Form 10-K for the fiscal year ended May 28, 2000. The filing included restated financial information for fiscal years 1997, 1998, 1999 and 2000. The restatement, due to accounting and conduct matters at its United Agri Products, Inc., (UAP) subsidiary, was based upon an investigation undertaken by the company and the Audit Committee of its Board of Directors. The restatement was principally related to revenue recognition for deferred delivery sales and vendor rebates, advance vendor rebates and bad debt reserves. The Securities and Exchange Commission (SEC) issued a formal order of nonpublic investigation dated September 28, 2001. The company is cooperating with the SEC investigation, which relates to the UAP matters described above, as well as other aspects of the company's financial statements, including the level and application of certain of the company's reserves.

The company is currently conducting discussions with the SEC Staff regarding a possible settlement of these matters. Based on discussions to date, the company estimates the amount of such settlement payments to be in the range of \$25 million to \$45 million. As of November 28, 2004, the company has a \$25 million reserve, established in the fourth quarter of fiscal 2004, in connection with these matters. Due to the nature of the ongoing discussions, the company cannot predict whether the discussions will result in a settlement and is unable to determine the ultimate cost the company may incur in order to resolve this matter. Any final resolution could result in charges greater than the amount currently estimated and recognized in the company's financial statements.

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The company is party to a number of lawsuits and claims arising out of the operation of its business. After taking into account liabilities recorded for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on the company's financial condition, results of operations or liquidity.

10. Pension and Postretirement Benefits

The company and its subsidiaries 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. The company uses February 28 as its measurement date for its plans. The company also sponsors postretirement plans which provide certain medical and dental benefits (other benefits) to qualifying U.S. employees.

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Components of pension benefit and other postretirement benefit costs are:

	Pension Costs			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	November 23, 2003	November 28, 2004	November 23, 2003
Service cost	\$ 14.7	\$ 15.4	\$ 29.4	\$ 30.8
Interest cost	30.8	29.9	61.6	59.8
Expected return on plan assets	(32.8)	(31.8)	(65.6)	(63.6)
Amortization of prior service cost	0.6	0.6	1.2	1.2
Amortization of transition amount			(0.1)	(0.1)
Recognized net actuarial loss	2.5	1.3	5.1	2.7
Curtailed (gain) loss		1.2		2.5
Benefit cost - company plans	15.8	16.6	31.6	33.3
Pension benefit cost - multi-employer plans	2.2	2.2	4.5	4.5
Total benefit cost	\$ 18.0	\$ 18.8	\$ 36.1	\$ 37.8

	Postretirement Costs			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 28, 2004	November 23, 2003	November 28, 2004	November 23, 2003
Service cost	\$ 0.8	\$ 1.0	\$ 1.8	\$ 2.0
Interest cost	7.0	8.0	14.4	16.0
Expected return on plan assets	(0.1)	(0.2)	(0.2)	(0.4)
Amortization of prior service cost	(1.9)	(0.2)	(2.1)	(0.4)
Recognized net actuarial loss	2.5	0.6	4.4	1.2
Curtailed (gain) loss		(0.7)		(1.4)
Benefit cost - company plans	\$ 8.3	\$ 8.5	\$ 18.3	\$ 17.0

During the twenty-six weeks ended November 28, 2004, the company contributed \$4.1 million to the pension plans and contributed \$23.9 million to the company's other postretirement plans. The company anticipates making further contributions of \$4.4 million to its pension plans for the remainder of fiscal 2005. The company anticipates making further contributions of \$23.9 million to its postretirement plans during the remainder of fiscal 2005. These estimates are based on current tax laws, plan asset performance and liability assumptions, which are subject to change.

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11. Business Segments

The company's operations are organized into three reporting segments: Retail Products, Foodservice Products and Food Ingredients. The Retail Products reporting segment manufactures and markets branded foods, which are sold in various retail channels and include frozen, refrigerated and shelf-stable temperature classes. The Foodservice Products reporting segment manufactures and markets branded and customized food products, including meals, entrees, prepared potatoes, meats, seafood, sauces and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments. The Food Ingredients reporting segment manufactures and markets both branded and commodity food ingredients, including milled grain ingredients, seasonings, blends and flavorings, which are sold to food processors, and also includes certain commodity trading and merchandising of energy, grains, fertilizer, and other commodities.

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

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	Thirteen weeks ended	
	November 28, 2004	November 23, 2003
Sales to unaffiliated customers		
Retail Products	\$ 2,485.4	\$ 2,271.6
Foodservice Products	939.5	956.2
Food Ingredients	691.3	577.0
Total	\$ 4,116.2	\$ 3,804.8
Intersegment sales		
Retail Products	\$ 5.3	\$ 8.8
Foodservice Products	26.2	18.2
Food Ingredients	56.0	118.0
	87.5	145.0
Intersegment elimination	(87.5)	(145.0)
Total	\$	\$
Net sales		
Retail Products	\$ 2,490.7	\$ 2,280.4
Foodservice Products	965.7	974.4
Food Ingredients	747.3	695.0
Intersegment elimination	(87.5)	(145.0)
Total	\$ 4,116.2	\$ 3,804.8
Operating profit		
Retail Products	\$ 373.0	\$ 361.3
Foodservice Products	91.0	85.8
Food Ingredients	79.2	54.1
Total operating profit	543.2	501.2
General corporate expenses	72.3	82.6
Interest expense, net	85.8	68.2
Income tax expense	155.5	130.1
Equity method investment earnings	15.1	16.3
Income from continuing operations before cumulative effect of change in accounting	\$ 244.7	\$ 236.6

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	Twenty-six weeks ended	
	November 28, 2004	November 23, 2003
Sales to unaffiliated customers		
Retail Products	\$ 4,499.6	\$ 4,112.6
Foodservice Products	1,844.1	1,836.5
Food Ingredients	1,268.1	1,085.1
Total	\$ 7,611.8	\$ 7,034.2
Intersegment sales		
Retail Products	\$ 10.8	\$ 16.9
Foodservice Products	49.8	40.2
Food Ingredients	107.1	235.3
	167.7	292.4
Intersegment elimination	(167.7)	(292.4)
Total	\$	\$
Net sales		
Retail Products	\$ 4,510.4	\$ 4,129.5
Foodservice Products	1,893.9	1,876.7
Food Ingredients	1,375.2	1,320.4
Intersegment elimination	(167.7)	(292.4)
Total	\$ 7,611.8	\$ 7,034.2
Operating profit		
Retail Products	\$ 582.8	\$ 569.3
Foodservice Products	158.4	161.8
Food Ingredients	139.3	82.0
Total operating profit	880.5	813.1
General corporate expenses	135.9	172.9
Interest expense, net	159.2	133.6
Income tax expense	236.9	167.2
Equity method investment earnings	29.2	27.5
Income from continuing operations before cumulative effect of change in accounting	\$ 377.7	\$ 366.9

12. Subsequent Events Retirement of Certain Long-Term Debt

In December 2004, the company retired \$600 million of 7.5% senior debt that was due September 2005. This early retirement of debt resulted in a pre-tax loss of \$22 million, which will be reflected in the company's statement of earnings in the third quarter of this fiscal year. Also in December 2004, the company approved the redemption of the remaining \$175 million of preferred securities of

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ConAgra Capital, L.C., an indirectly controlled subsidiary of the company. The company expects to complete the redemption of these securities in the third quarter of fiscal 2005. Due to the adoption of FIN No. 46R, ConAgra Capital, L.C. was deconsolidated, and therefore these securities are reflected in the company's balance sheets as \$221 million of long-term debt and \$46 million of other assets as of November 28, 2004 and May 30, 2004 and in preferred securities of subsidiary company as of November 23, 2003.

13. Restatement of Previously Issued Financial Statements

On March 24, 2005, the company announced that it would restate certain historical results to correct errors in previously reported amounts related to income tax matters. This Form 10-Q/A includes restated financial information. The correction of the errors results in an aggregate net increase in income tax expense of approximately \$13 million (including approximately \$4 million reflected in results from discontinued operations) during the first half of fiscal 2005 and approximately \$40 million during the first half of fiscal 2004. The restatement adjustments result in a \$48 million reduction of ending stockholders' equity as of November 28, 2004.

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

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

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

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

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

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

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

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

The impact of this restatement on the condensed consolidated financial statements is summarized below:

	As Previously Reported ⁽¹⁾	As of November 28, 2004	
		Restatement	As Restated
Prepaid expenses and other current assets	\$ 326.1	5.9	\$ 332.0
Total current assets	5,487.1	5.9	5,493.0
Goodwill	3,815.0	(2.2)	3,812.8
Total assets	14,202.1	3.7	14,205.8
Other accrued liabilities	1,227.5	12.5	1,240.0
Total current liabilities	3,651.1	12.5	3,663.6
Other noncurrent liabilities	1,101.0	39.7	1,140.7
Total liabilities	9,341.4	52.2	9,393.6
Additional paid-in capital	754.9	(0.4)	754.5
Retained earnings	2,498.4	(48.1)	2,450.3
Total common stockholders' equity	4,860.7	(48.5)	4,812.2
Total liabilities and stockholders' equity	14,202.1	3.7	14,205.8

(1) As previously reported in the company's Form 10-Q for the quarterly period ended November 28, 2004 filed on January 6, 2005.

ConAgra Foods, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

	For the 13 weeks ended November 28, 2004			For the 26 weeks ended November 28, 2004			As Restated and Reclassified	
	As Previously Reported(1)	Reclass- ifications	Restate- ment	As Restated and Reclassified	As Previously Reported(1)	Reclass- ifications		Restate- ment
Cost of goods sold	\$ 3,213.7	2.2		\$ 3,215.9	\$ 6,021.1	5.7		\$ 6,026.8
Selling, general and administrative expenses	441.7	(2.2)	(10.1)	429.4	856.2	(5.7)	(10.1)	840.4
Income tax expense	146.8		8.7	155.5	227.9		9.0	236.9
Income from continuing operations before cumulative effect of changes in accounting	243.3		1.4	244.7	376.6		1.1	377.7
Income (loss) from discontinued operations, net of tax	(1.0)		(4.1)	(5.1)	0.7		(4.1)	(3.4)
Net income	242.3		(2.7)	239.6	377.3		(3.0)	374.3
Comprehensive income	313.3		(2.7)	310.6	433.5		(3.0)	430.5
Earnings per share - basic								
Income from continuing operations before cumulative effect of changes in accounting	\$ 0.47		0.01	\$ 0.48	\$ 0.73		0.01	\$ 0.74
Income (loss) from discontinued operations, net of tax	\$		(0.01)	\$ (0.01)	\$		(0.01)	\$ (0.01)
Net income	\$ 0.47			\$ 0.47	\$ 0.73			\$ 0.73
Earnings per share-diluted								
Income from continuing operations before cumulative effect of changes in accounting	\$ 0.47			\$ 0.47	\$ 0.73			\$ 0.73
Income (loss) from discontinued operations, net of tax	\$		(0.01)	\$ (0.01)	\$		(0.01)	\$ (0.01)
Net income	\$ 0.47		(0.01)	\$ 0.46	\$ 0.73		(0.01)	\$ 0.72

(1) As previously reported in the company's Form 10-Q for the quarterly period ended November 28, 2004 filed on January 6, 2005.

As of November 23, 2003

	As Previously Reported (1)	Restatement	As Restated
Prepaid expenses and other current assets	\$ 362.6	49.6	\$ 412.2
Total current assets	5,772.4	49.6	5,822.0
Goodwill	3,807.1	(2.2)	3,804.9
Other assets	1,451.5	(10.2)	1,441.3
Total assets	14,532.7	37.2	14,569.9
Other accrued liabilities	1,295.7	28.2	1,323.9
Total current liabilities	3,532.2	28.2	3,560.4
Other noncurrent liabilities	961.0	24.4	985.4
Total liabilities	9,634.4	52.6	9,687.0
Additional paid-in capital	750.7	(0.4)	750.3
Retained earnings	2,254.7	(15.0)	2,239.7
Total common stockholders' equity	4,898.3	(15.4)	4,882.9
Total liabilities and stockholders' equity	14,532.7	37.2	14,569.9

(1) As previously reported in the company's Form 10-Q for the quarterly period ended November 28, 2004 filed on January 6, 2005.

ConAgra Foods, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

	As Previously Reported(1)	For the 13 weeks ended November 23, 2003		As Restated and Reclassified	As Previously Reported(1)	For the 26 weeks ended November 23, 2003		As Restated and Reclassified
		Reclass- ifications	Restate- ment			Reclass- ifications	Restate- ment	
Cost of goods sold	\$ 2,908.5	(3.5)		\$ 2,905.0	\$ 5,453.7	(3.5)		\$ 5,450.2
Selling, general and administrative expenses	477.7	3.5		481.2	941.7	3.5	(1.4)	943.8
Income tax expense	128.8		1.3	130.1	127.5		39.7	167.2
Income from continuing operations before cumulative effect of changes in accounting	237.9		(1.3)	236.6	405.2		(38.3)	366.9
Net income	270.1		(1.3)	268.8	465.0		(38.3)	426.7
Comprehensive income	296.5		(1.3)	295.2	526.4		(38.3)	488.1
Earnings per share - basic								
Income from continuing operations before cumulative effect of changes in accounting	\$ 0.45			\$ 0.45	\$ 0.77		(0.08)	\$ 0.69
Net income	\$ 0.51			\$ 0.51	\$ 0.88		(0.08)	\$ 0.80
Earnings per share- diluted								
Income from continuing operations before cumulative effect of changes in accounting	\$ 0.45			\$ 0.45	\$ 0.76		(0.07)	\$ 0.69
Net income	\$ 0.51			\$ 0.51	\$ 0.87		(0.07)	\$ 0.80

(1) As previously reported in the company's Form 10-Q for the quarterly period ended November 28, 2004 filed on January 6, 2005.

ConAgra Foods, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Twenty-six Weeks ended November 28, 2004 and November 23, 2003

(columnar dollars in millions except per share amounts)

	As of May 30, 2004		
	As Previously Reported (1)	Restatement	As Restated
Prepaid expenses and other current assets	\$ 435.4	4.4	\$ 439.8
Total current assets	5,144.9	4.4	5,149.3
Goodwill	3,798.8	(2.2)	3,796.6
Other assets	1,569.5	(10.1)	1,559.4
Total assets	14,230.1	(7.9)	14,222.2
Other accrued liabilities	1,076.9	2.9	1,079.8
Total current liabilities	3,001.6	2.9	3,004.5
Other noncurrent liabilities	1,108.3	34.8	1,143.1
Total liabilities	9,390.6	37.7	9,428.3
Additional paid-in capital	756.1	(0.4)	755.7
Retained earnings	2,394.4	(45.2)	2,349.2
Total common stockholders' equity	4,839.5	(45.6)	4,793.9
Total liabilities and stockholders' equity	14,230.1	(7.9)	14,222.2

(1) As previously reported in the company's Form 10-Q for the quarterly period ended November 28, 2004 filed on January 6, 2005.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS

This report, including Management's Discussion & Analysis, 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. Readers of this report should understand that these statements are not guarantees of performance or results. Many factors could affect the company's actual financial results and cause them to vary materially from the expectations contained in the forward-looking statements. These factors include, among other things, future economic circumstances, industry conditions, company performance and financial results, availability and prices of raw materials, product pricing, competitive environment and related market conditions, operating efficiencies, access to capital, actions of governments and regulatory factors affecting the company's businesses and other risks described in the company's reports filed with the Securities and Exchange Commission. The company cautions 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.

Following is management's discussion and analysis of the company's operating results as well as liquidity and capital resources which should be read together with the company's financial statements and related notes contained in this report and with the financial statements and management's discussion and analysis in the company's annual report on Form 10-K/A for the fiscal year ended May 30, 2004. Results for the thirteen and twenty-six week periods ended November 28, 2004 are not necessarily indicative of results that may be attained in the future.

Restatement of Condensed Consolidated Financial Statements

On March 24, 2005, the company announced that it would restate certain historical results to correct errors in previously reported amounts related to income tax matters. This Form 10-Q/A includes restated financial information. The correction of the errors results in an aggregate net increase in income tax expense of approximately \$13 million (including approximately \$4 million reflected in results from discontinued operations) during the first half of fiscal 2005 and approximately \$40 million during the first half of fiscal 2004. The restatement adjustments result in a \$48 million reduction of ending stockholders' equity as of November 28, 2004.

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

The company made errors in its fiscal 1997 tax return in the calculation of tax basis upon the formation of a pork subsidiary. Additional less significant tax basis calculation errors also occurred. Upon the sale of the beef and pork businesses in fiscal 2003, as a result of the basis calculation errors, the company incorrectly calculated a capital loss and recognized a deferred tax asset with an offsetting valuation

allowance. The company incorrectly recognized an income tax benefit when it applied the erroneous capital loss carryforward against capital gain transactions in fiscal 2004.

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

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

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

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

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

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For the first half of fiscal 2004, decreased selling, general and administrative expenses \$1.4 million; increased income tax expense \$39.7 million; decreased net income \$38.3 million; decreased diluted earnings per share \$0.07.

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

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

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

See Note 13 to the condensed consolidated financial statements for additional information. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to such restatement.

Fiscal 2005 Second Quarter Executive Overview

ConAgra Foods is one of North America's largest packaged food companies, serving consumer grocery retailers, as well as restaurants and other foodservice establishments. Popular ConAgra Foods consumer brands include: ACT II, Armour, Banquet, Blue Bonnet, Brown N Serve, Butterball, Chef Boyardee, Cook's, Crunch n Munch, DAVID, Decker, Eckrich, Egg Beaters, Fleischmann's, Gulden's, Healthy Choice, Hebrew National, Hunt's, Kid Cuisine, Knott's Berry Farm, La Choy, Lamb Weston, Libby's, Lightlife, Louis Kemp, Lunch Makers, MaMa Rosa's, Manwich, Marie Callender's, Orville Redenbacher's, PAM, Parkay, Pemmican, Peter Pan, Reddi-wip, Rosarita, Ro*Tel, Slim Jim, Snack Pack, Swiss Miss, Van Camp's, Wesson, Wolf and many others.

Over the past few years, the company has strategically repositioned its portfolio to focus on higher-margin, branded and value-added businesses because that business mix is expected to better serve consumers, customers and shareholders over the long term. Executing that strategy has involved acquiring branded operations and divesting commodity-related businesses. The company is also implementing initiatives to improve the operating performance of its core business segments through more effective sales, marketing and supply chain functions.

During the second quarter of fiscal 2005, the company:

earned \$0.46 per diluted share, which includes a loss of \$0.01 per share from discontinued operations, as compared to second-quarter fiscal 2004 diluted EPS of \$0.51 which included \$0.06 per share of results of discontinued operations; diluted EPS from continuing operations was \$0.45 in the second quarter of fiscal 2004,

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achieved 8% sales growth, driven by strong volume growth and increased product pricing in the Retail Products segment,

increased year-over-year operating profit for each of the company's reporting segments,

divested its minority interest in Swift Foods for \$194 million, resulting in a gain of approximately \$9 million, and

retired \$300 million of long-term debt.

Sales and Marketing Initiatives

To strengthen brand equities and better allocate marketing investments, the company continues the implementation of standardized, fact-based marketing methods to better assess brand opportunities and evaluate marketing programs.

To better serve customers and capitalize on growth opportunities, the company consolidated its retail sales force and established a team-based approach for customers. Customers are now served by dedicated ConAgra Foods teams representing the entire portfolio of ConAgra Foods products. This approach improves customer service and provides the company with product bundling opportunities. In addition, the company substantially reduced the role of brokers during the prior fiscal year.

The company believes these initiatives are favorably influencing brand performance as sales volumes increased by 7% in the Retail Products segment in the second quarter of fiscal 2005 compared to the same period in the prior year.

Operational Efficiency Initiatives

During fiscal 2004, the company implemented certain operational efficiency initiatives. These initiatives are intended to improve the company's cost structure, margins and competitive position through the elimination of duplicative costs and overhead, consolidation of selected plants and support functions and realignment of businesses. Charges associated with the implementation of such initiatives are being recognized as incurred. During the second quarter of fiscal 2005, the company recognized charges of approximately \$4 million associated with its operational

efficiency initiatives as compared to approximately \$11 million for the same period in the prior year. The company anticipates additional charges of approximately \$6 million will be recognized during the remainder of fiscal 2005. The company believes it will generate benefits to its cost structure, as well as synergies related to other sales and customer service initiatives, in fiscal 2005 and beyond, which will more than offset these costs.

Sale of Pilgrim s Pride Common Stock

Subsequent to the end of the second quarter of the current year, the company sold 10 million shares of Pilgrim s Pride Corporation common stock for \$283 million, which will result in a pretax gain of approximately \$186 million being recognized in the third quarter of fiscal 2005. The company received these shares in the fall of 2003 in connection with the divestiture of its chicken processing operations to Pilgrim s Pride. The company continues to hold 15.4 million shares of Pilgrim s Pride common stock that are subject to resale restrictions; the company plans to sell these shares at the appropriate time in accordance with these restrictions. With the consent of Pilgrim s Pride Corporation, these trading restrictions may be waived.

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Capital Allocation

The company remains committed to appropriately utilize excess cash through its capital allocation program. The company has repurchased approximately \$600 million of its stock since announcing a \$1 billion repurchase program in December of 2003. The company plans to continue to opportunistically repurchase its common stock. Management currently anticipates completing substantially all of the remaining share repurchases in fiscal 2006.

The company has also been using cash to retire debt that has become due or that will soon be due. During the quarter, the company retired \$300 million of 7.4% subordinated debt that was due September 2004. In anticipation of the receipt of the proceeds from the sale of the Pilgrim's Pride Corporation common stock, subsequent to quarter-end, the company retired \$600 million of 7.5% senior debt, which was due September 2005, using available cash and commercial paper borrowings.

In December 2004, the company approved the redemption of the remaining \$175 million of preferred securities of ConAgra Capital, L.C., an indirectly controlled subsidiary of the company. The company expects to complete the redemption of these securities during the third quarter of fiscal 2005. Due to the adoption of FIN No. 46R, ConAgra Capital, L.C. was deconsolidated, and therefore these securities have been reflected in the company's balance sheets as \$221 million of long-term debt and \$46 million of other assets.

Opportunities and Challenges

The company continues to face increased costs for many of its significant raw materials, packaging and energy inputs. When appropriate, the company uses long-term purchase contracts, futures and options to reduce the volatility of these costs. During the first half of the current year, the company has implemented sales price increases for certain products and will continue to evaluate further price increases based on raw material cost trends, expected impact on sales volumes and other factors. The company believes the benefit of these sales price increases will have a greater impact on the second half of the current year than the first half as the price increases will be in effect for all of the second half of the year.

Changing consumer preferences may impact sales of certain of the company's products. The company offers a variety of food products which appeal to a range of consumer preferences and utilizes innovation and marketing programs to develop products that fit with changing consumer trends. As part of these programs, the company introduces new products and product extensions.

Consolidation of many of the company's customers continues to result in increased buying power, negotiating strength and complex service requirements for those customers. This trend, which is expected to continue, may negatively impact gross margins, particularly in the Retail Products segment. In order to effectively respond to this customer consolidation, during fiscal 2004 the company consolidated its sales force to more efficiently service its customers and to appropriately leverage the company's scale. In fiscal 2003, the company's retail customer service centers were consolidated into one specialized facility to service all retail channel customers. The company continues to streamline its

distribution network in order to reduce costs and increase its responsiveness to customer needs.

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Segment Review

The company's operations are organized into three reporting segments: Retail Products, Foodservice Products and Food Ingredients. The Retail Products reporting segment manufactures and markets branded foods, which are sold in various retail channels and includes frozen, refrigerated and shelf-stable temperature classes. The Foodservice Products reporting segment manufactures and markets customized food products, including meals, entrees, prepared potatoes, meats, seafood, sauces and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments. The Food Ingredients reporting segment manufactures and markets branded and commodity food ingredients, including milled grain ingredients, seasonings, blends and flavorings, which are sold to food processors, as well as certain commodity trading and merchandising of energy, grains, fertilizer and other commodities.

Net Sales

(\$ in millions)

Reporting Segment

	Net Sales						
	Thirteen weeks ended			Twenty-six weeks ended			
	November 28, 2004	November 23, 2003	Percentage Inc / (Dec)	November 28, 2004	November 23, 2003	Percentage Inc / (Dec)	
Retail Products	\$ 2,485	\$ 2,272	9%	\$ 4,500	\$ 4,113	9%	
Foodservice Products	940	956	(2)%	1,844	1,836		
Food Ingredients	691	577	20%	1,268	1,085	17%	
	\$ 4,116	\$ 3,805	8%	\$ 7,612	\$ 7,034	8%	

Net sales for the second quarter of fiscal 2005 were \$4.1 billion, an increase of \$311 million, or 8%, from the same period in the prior fiscal year. Net sales for the first half of fiscal 2005 were \$7.6 billion, an increase of \$578 million, or 8%, from the same period in the prior fiscal year. These increases were driven primarily by strong volume growth accompanied by increased selling prices in the Retail Products segment and favorable results in the Food Ingredients segment.

Retail Products net sales for the second quarter were \$2.5 billion, an increase of \$213 million, or 9%, compared to the same period in the prior year. This improvement was primarily the result of a 7% increase in volume, driven by the company's sales and marketing initiatives and also reflects that segment volume in the first half of fiscal 2004 was negatively impacted by the transition to a consolidated Retail Products sales force. The company has also raised selling prices, on average, by approximately 2% as necessitated by higher input costs. All operations within the segment deli, frozen, grocery, refrigerated, snacks and international achieved sales growth. Several major brands posted double-digit sales growth, including Banquet, Chef Boyardee, Cook's, DAVID, Egg Beaters, Kid Cuisine, Marie Callender's, Peter Pan, PAM, Snack Pack, Swiss Miss, VanCamp's and Wesson. Sales declines occurred for certain large brands including Butterball, Healthy Choice, Hebrew National and Slim

Jim.

Retail Products net sales in the first half of fiscal 2005 were \$4.5 billion, an increase of \$387 million, or 9%, from the same period in the prior fiscal year, driven by the factors discussed above.

Foodservice Products net sales were \$940 million in the second quarter of fiscal 2005 and \$956 million in the same period of the prior year, a decrease of 2%, reflecting decreased seafood sales due to the impact

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of tariffs and related competitive impacts and \$10 million of sales from a business the company divested in fiscal 2004, partially offset by strong sales volumes in specialty potato products. Net sales in the first half of fiscal 2005 were \$1.8 billion, which was essentially unchanged as compared to prior year net sales, reflecting increased volumes in specialty potato products offset by decreased sales of seafood and prepared meats products. The company increased selling prices for many of its foodservice products in the first half of fiscal 2005, substantially offsetting increased input costs.

Food Ingredients net sales were \$691 million in the second quarter of fiscal 2005, an increase of \$114 million, or 20%, from the same period in the prior year, and net sales were \$1.3 billion in the first half of fiscal 2005, an increase of \$183 million, or 17%, from the same period in the prior year. Increased net sales reflects sales to United Agri Products, Inc. and Pilgrim's Pride Corporation, subsequent to the company's divestitures of UAP North America and the chicken business in the second quarter of fiscal 2004, and a favorable environment for trading and merchandising of commodities including grain, petroleum products, natural gas and fertilizer.

Gross Profit

(Net sales less cost of goods sold)

(\$ in millions)

Reporting Segment

	Gross Profit					
	Thirteen weeks ended			Twenty-six weeks ended		
	November 28, 2004	November 23, 2003	Percentage Inc / (Dec)	November 28, 2004	November 23, 2003	Percentage Inc / (Dec)
Retail Products	\$ 631	\$ 654	(4)%	\$ 1,107	\$ 1,139	(3)%
Foodservice Products	144	148	(3)%	267	280	(5)%
Food Ingredients	125	98	27%	211	165	28%
	\$ 900	\$ 900		\$ 1,585	\$ 1,584	

The company's gross profit for the second quarter of fiscal 2005 was \$900 million, unchanged from the same period in the prior year. Gross profit for the first half of fiscal 2005 was \$1.6 billion, essentially flat with the same period in the prior year. Costs of implementing the company's operational efficiency initiatives reduced gross profit for the second quarter and first half of fiscal 2005 by \$4 million and \$13 million, respectively, and reduced gross profit for both the second quarter and first half of fiscal 2004 by \$2 million. The costs of commodity inputs have been higher, on average, in fiscal 2005 than in the prior year. Although the company has implemented price increases for many of its products, it was not able to fully offset the increased input costs in the second quarter and first half of fiscal 2005.

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The company's gross margin (gross profit as a percentage of net sales) for the second quarter and first half of fiscal 2005 was 22% and 21%, respectively, as compared to 24% and 23%, respectively for the same periods in the prior year, primarily reflecting the impact of increased input and other production costs.

Retail Products gross profit for the second quarter of fiscal 2005 was \$631 million, a decrease of \$23 million, or 4%, from the same period in the prior year. Gross profit for the first half of fiscal 2005 was \$1.1 billion, a decrease of \$32 million, or 3%, from the same period in the prior year. Gross profit for branded processed meats was significantly below prior year results, reflecting higher input costs and the impact of competitive pricing. Costs of implementing the company's operational efficiency initiatives reduced gross profit for the second quarter and first half of fiscal 2005 by \$3 million and \$11 million,

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respectively. Costs of implementing the company's operational efficiency initiatives reduced gross profit for both the second quarter and first half of fiscal 2004 by \$1 million. Gross margins of the Retail Products segment for the second quarter and first half of fiscal 2005 were 26% and 25%, respectively, as compared to 29% and 28% in the same periods of the prior year, due to higher input costs, which were not fully offset by higher selling prices for many of the company's products, and a less favorable mix of products sold.

Foodservice Products gross profit was \$144 million for the second quarter of fiscal 2005 and \$148 million in the same period of the prior year, a decrease of 3%. Gross profit was \$267 million for the first half of fiscal 2005 and \$280 million in the same period of the prior year, a decrease of 5%. The reduced gross profit includes unfavorable production costs associated with a planned plant consolidation of \$6 million and \$17 million for the second quarter and first half of fiscal 2005, respectively. Costs of implementing the company's operational efficiency initiatives reduced gross profit for the first half of fiscal 2005 by \$2 million, while these costs were not significant in the second quarter of fiscal 2005. Increased margins due to improved sales volume of specialty potato products was partially offset by margin declines from the company's seafood products. Increased costs of commodity inputs were substantially offset by sales price increases and improved mix of products sold during the quarter. Gross margins were essentially unchanged at 15% for both the second quarter and first half of fiscal 2005.

Food Ingredients gross profit for the second quarter of fiscal 2005 increased \$27 million, or 27%, to \$125 million. Gross profit for the first half of fiscal 2005 increased \$46 million, or 28%, to \$211 million. Improvements in gross profit are due to favorable market conditions in the company's commodity trading and grain and fertilizer merchandising operations. Gross margins increased to approximately 18% and 17% in the second quarter and first half of fiscal 2005 as compared to 17% and 15% in the same periods in the prior year.

Selling, General and Administrative Expenses (includes general corporate expense)

Selling, general and administrative expenses totaled \$429 million for the second quarter of fiscal 2005, a decrease of \$52 million, or 11%, as compared to the same period in the prior year. This decrease resulted from decreased payroll costs, and lower marketing, advertising and promotional costs and a \$9 million gain resulting from the sale of the minority interest investment in Swift Foods.

Selling, general and administrative expenses totaled \$840 million for the first half of fiscal 2005, down \$103 million, or 11%, as compared to the same period in the prior year. This decrease resulted from lower advertising and promotions costs in fiscal 2005, a \$9 million gain resulting from the sale of the minority interest investment in Swift Foods and higher costs in the first half of fiscal 2004 due to a \$25 million charge for litigation related to a choline chloride joint venture with E.I. du Pont Nemours and Co. that was sold in 1997. Included in selling, general and administrative expense for the first half of fiscal 2005 were \$4 million of costs relating to the company's operational efficiency initiatives.

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

(\$ in millions)

Reporting Segment

	Operating Profit					
	November 28, 2004	Thirteen weeks ended November 23, 2003	Percentage Inc / (Dec)	November 28, 2004	Twenty-six weeks ended November 23, 2003	Percentage Inc / (Dec)
Retail Products	\$ 373	\$ 361	3%	\$ 583	\$ 569	2%
Foodservice Products	91	86	6%	158	162	(2)%
Food Ingredients	79	54	46%	139	82	70%

Retail Products operating profit for the second quarter of fiscal 2005 was \$373 million, an increase of \$12 million, or 3%, as compared to the same period in the prior year. Operating profit for the first half of fiscal 2005 was \$583 million, an increase of \$14 million, or 2%, as compared to the same period in the prior year. Operating profit reflects SG&A cost reductions, primarily in advertising and promotion, partially offset by the reduction in gross profit. Costs of implementing the company's operational efficiency initiatives reduced operating profit by \$4 million and \$12 million in the second quarter and first half of fiscal 2005, respectively.

For the second quarter of fiscal 2005, Foodservice Products operating profit was \$91 million, compared with \$86 million for the second quarter of last fiscal year. For the first half of fiscal 2005, operating profit was \$158 million, compared with \$162 million for the first half of last fiscal year. Operating profit is reflective of \$6 million and \$17 million of unfavorable production costs associated with a planned plant consolidation in the second quarter and first half of fiscal 2005, respectively. The first half of fiscal 2005 includes the impact of \$4 million of costs of implementing the company's operational efficiency initiatives.

Food Ingredients operating profit for the second quarter of fiscal 2005 was \$79 million, an increase of \$25 million, or 46%, over the same period in the prior year. Operating profit for the first half of fiscal 2005 was \$139 million, an increase of \$57 million, or 70%, over the same period in the prior year. Improved results are due to a favorable environment in the company's commodity trading and merchandising operations, the operating profit of which increased \$19 million and \$39 million, respectively, for the second quarter and first half of fiscal 2005 over the same periods in the prior year.

Interest Expense, Net

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Net interest expense for the second quarter of fiscal 2005 increased \$18 million, or 26%, as compared to the same period in fiscal 2004. Net interest expense for the first half of fiscal 2005 increased \$26 million, or 19%, as compared to the same period in fiscal 2004. Increased interest expense reflects a reduced benefit from the previously terminated interest rate swap agreements and the change in classification of certain financing costs to interest expense. Prior to the adoption of FIN No. 46R, such costs had been recorded in selling, general and administrative expense. In addition, during the second quarter of fiscal 2005, the company recognized approximately \$14 million of additional interest expense associated with a previously terminated interest rate swap. The company had previously deferred this amount in accumulated other comprehensive income as the interest rate swap was being used to hedge the interest payments associated with the forecasted issuance of debt. During the second quarter the company

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determined it was no longer probable such debt would be issued and immediately recognized the entire deferred amount within interest expense.

During the second quarter of fiscal 2004, the company closed out all of its interest rate swap agreements in order to lock-in existing favorable interest rates. These interest rate swap agreements were previously put in place as a strategy to hedge interest costs associated with long-term debt. For financial statement purposes the benefit associated with the termination of the interest rate swap agreements continues to be recognized over the term of the debt instruments originally hedged. The company's net interest expense was reduced by \$11 million due to the interest rate swap agreements in the first half of fiscal 2005 and by \$40 million in the comparable period of fiscal 2004. The company's net interest expense will continue to be favorably impacted by the recognition of this benefit (approximately \$17 million) for the balance of fiscal 2005, but to a lesser extent than in the second half of fiscal 2004 (approximately \$36 million).

Income Taxes

In the second quarter and first half of fiscal 2005, the company's income tax expense was \$155.5 million and \$236.9 million, respectively. In the second quarter and first half of fiscal 2004 the company's income tax expense was \$130.1 million and \$167.2 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 39% for both the second quarter and first half of fiscal 2005. The effective tax rate was approximately 35% and 31% for the second quarter and first half of fiscal 2004, respectively.

In September 2003, the company reached an agreement with the Internal Revenue Service (IRS) with respect to the IRS's examination of the company's tax returns for fiscal years 1996 through 1999. As a result of the favorable resolution of these matters, the company reduced income tax expense by \$27.0 million during the first quarter of fiscal 2004.

Discontinued Operations

The second quarter and first half of the current year include an after tax loss of \$5 million and \$3 million, respectively from discontinued operations as compared to income of \$32 million and \$72 million, respectively, in the same periods of the prior year.

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

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of operations, including the gain on sale, of the cattle feeding business are classified as discontinued operations.

During fiscal 2004, the company completed the sales of its chicken business to Pilgrim's Pride Corporation, its UAP North America operations to Apollo Management, L.P., and its Spanish feed business to the Carlyle Group. The company completed the sale of its Portuguese poultry business during the first quarter of fiscal 2005. The company has been actively marketing the remaining Agricultural Products businesses (UAP International) and believes such businesses will be disposed of during fiscal 2005. Accordingly, the company reflects the results of operations, cash flows, assets and liabilities of each of these businesses as discontinued operations for all periods presented.

In the second quarter of fiscal 2005, the company reached agreements in principle with various parties to sell substantially all of the remaining assets of UAP International. As a result, management determined that the ultimate proceeds from such sales would be lower than originally estimated. The company therefore recorded an impairment charge of \$22.3 million (net of a tax benefit of \$2.1 million) in order to reflect the assets at the revised estimated fair value, less cost to sell.

Cumulative Effect of Change in Accounting

Effective May 26, 2003, the company adopted Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, resulting in a cumulative effect of accounting change that decreased net income by \$11.7 million (net of taxes of \$7.2 million), or \$0.02 per diluted share in the first quarter of fiscal 2004.

Earnings Per Share

The company's fiscal 2005 second quarter diluted earnings per share were \$0.46; \$0.47 per share from continuing operations and a \$0.01 per share loss from discontinued operations. Fiscal 2004 second quarter earnings per share were \$0.51, \$0.45 per share from continuing operations before cumulative effect of change in accounting and \$0.06 per share from discontinued operations.

Diluted earnings per share for the first half of fiscal 2005 were \$0.72; \$0.73 per share from continuing operations and a \$0.01 per share loss from discontinued operations. Fiscal 2004 first-half earnings per share were \$0.80, \$0.69 per share from continuing operations before cumulative effect of change in accounting, \$0.13 per share from discontinued operations, and a loss of \$0.02 per share from the cumulative effect of a change in accounting.

Other

On June 22, 2001, the company filed an amended annual report on Form 10-K for the fiscal year ended May 28, 2000. The filing included restated financial information for fiscal years 1997, 1998, 1999 and 2000. The restatement, due to accounting and conduct matters at United Agri Products, Inc. (UAP), a former subsidiary, was based upon an investigation undertaken by the company and the Audit Committee of its Board of Directors. The restatement was principally related to revenue recognition for deferred delivery sales and vendor rebates, advance vendor rebates and bad debt reserves. The Securities and Exchange Commission (SEC) issued a formal order of nonpublic investigation dated September 28, 2001. The company is cooperating with the SEC investigation, which relates to the UAP matters described above, as well as other aspects of the company's financial statements, including the level and application of certain of the company's reserves.

The company is currently conducting discussions with the SEC Staff regarding a possible settlement of these matters. Based on discussions to date, the company estimates the amount of such settlement

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payments to be in the range of \$25 million to \$45 million. As of November 28, 2004, the company has a \$25 million reserve, established in the fourth quarter of fiscal 2004, in connection with these matters. Due to the nature of the ongoing discussions, the company cannot predict whether the discussions will result in a settlement and is unable to determine the ultimate cost the company may incur in order to resolve this matter. Any final resolution could result in charges greater than the amount currently estimated and recognized in the company's financial statements.

Liquidity and Capital Resources

Sources of Liquidity and Capital

The company's primary financing objective is to maintain a prudent balance sheet that provides the flexibility to pursue its growth objectives. The company currently uses short-term debt to finance increases in its trade working capital (accounts receivable plus inventory, less accounts payable, accrued expenses and advances on sales) needs and a combination of equity and long-term debt to finance both its base trade working capital needs and its noncurrent assets.

Commercial paper borrowings (usually less than 30 days maturity) are reflected in the company's consolidated balance sheets within notes payable. The company maintains a \$1.05 billion revolving credit facility to support the company's commercial paper borrowings. The company has never used this revolving credit facility. The company is in compliance with the credit agreements' financial covenants. Management believes the company will maintain its current short-term debt credit rating for the foreseeable future, thus allowing the company's continued issuance of commercial paper. If the company were unable to access the short-term commercial paper market, the company would use its bank revolving credit facility to provide liquidity.

The \$1.05 billion revolving credit facility (expiring in May 2007) is with major domestic and international banks. The interest rate for the revolving credit facility is generally .30 to .35 percentage points higher than the interest rates for commercial paper.

The company determined that it did not require the availability of its \$400 million accounts receivable securitization program and terminated this program following the end of the second quarter of fiscal 2005. Under this program, accounts receivable could be sold without recourse at a discount, and this cost is included in selling, general and administrative expenses. Because these accounts receivable are sold without recourse to unrelated third parties, accounts receivable balances sold are excluded from the company's consolidated financial statements. As of the end of the second quarter of fiscal 2005, the company had no outstanding accounts receivable sold, while accounts receivable sold totaled \$400 million as of the end of the second quarter of fiscal 2004.

The company's overall level of interest-bearing debt as of the end of the second quarter of fiscal years 2005 and 2004 totaled \$5.4 billion. Scheduled payments of maturing long-term debt of \$334 million and reduced notes payable borrowings of \$96 million over the last twelve months were primarily offset by the addition of \$449 million to interest bearing debt which was the result of the company's adoption of FIN No.

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46R. As of the end of the second quarter of both fiscal 2005 and 2004, the company's senior long-term debt ratings were BBB+ (Fitch), Baa1 (Moody's) and BBB+ (Standard & Poor's), all investment grade ratings.

The company also has a shelf registration under which it could issue from time to time up to \$4 billion in debt securities.

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Over the last two fiscal years, the company has divested its major commodity operations, such as fresh beef and pork, cheese processing, canned seafood, chicken processing and agricultural chemical distribution. The company received debt and equity interests as part of the proceeds for certain of those businesses. During the second quarter of fiscal 2005, the company sold its equity interest in the fresh beef and pork venture for \$194 million. Also during the second quarter, the company reached an agreement with affiliates of Swift Foods by which the company took control and ownership of the cattle feeding business (including feedlots and live cattle), and on October 15, 2004, the company sold the feedlots to Smithfield Foods, Inc. for approximately \$70 million. The company retained live cattle inventory and related derivative instruments and is liquidating those assets in an orderly manner. As of November 28, 2004, the company had reduced the live cattle inventory to \$189 million. The company expects the sale of the live cattle inventory to be substantially completed by April 2005. On November 29, 2004, the company sold its remaining \$15 million of UAP preferred securities and accrued dividends for cash. In December 2004, the company sold 10 million shares of Pilgrim's Pride Corporation common stock for \$282.5 million. The company expects to sell the following investments and other interests related to these transactions in the future, subject to contractual conditions:

approximately 15.4 million shares of Pilgrim's Pride Corporation (with a market value of \$539 million at November 28, 2004), and

\$150 million of subordinated notes receivable plus accrued interest from the fresh beef and pork venture.

The remaining 15.4 million shares of Pilgrim's Pride Corporation common stock are contractually restricted, such that the company cannot sell any portion of the shares until December 2005, at which time up to 6.94 million shares may be sold. The remaining shares can be sold in future periods beginning after December 13, 2005, but no more than 8.47 million shares may be sold in any twelve-month period. With the consent of Pilgrim's Pride Corporation, these trading restrictions may be waived. As of November 28, 2004, 8.47 million shares are classified as available-for-sale, as the company was contractually allowed to sell these shares within twelve months. The available-for-sale shares are stated at fair value based on quoted market prices with unrealized pre-tax gains of approximately \$215 million (\$133 million after tax) included in accumulated other comprehensive income. The remaining shares are accounted for at cost (based on the valuation performed on the transaction date).

During the second quarter the company retired \$300 million of 7.4% subordinated debt that was due September 2004. In December 2004, the company retired \$600 million of 7.5% senior debt that was due September 2005. This early retirement of debt resulted in a pre-tax loss of \$22 million, which will be reflected in the company's statement of earnings in the third quarter of this year. Also in December 2004, the company approved the redemption of the remaining \$175 million of preferred securities of ConAgra Capital, L.C., an indirectly controlled subsidiary of the company. The company expects to complete the redemption of these securities in the third quarter of fiscal 2005. Due to the adoption of FIN No. 46R, ConAgra Capital, L.C. was deconsolidated, and therefore these securities have been reflected in the company's balance sheets as \$221 million of long-term debt and \$46 million of other assets.

Cash Flows

During the first half of fiscal 2005, the company used \$255 million of cash, which was the net impact of \$462 million generated from operating activities, \$52 million generated by investing activities and \$769 million used in financing activities.

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Cash generated from operating activities of continuing operations totaled \$387 million in the first half of fiscal 2005, as compared to \$287 million generated in the same period of the prior year. The increased cash flow was primarily due to decreased trade working capital, resulting primarily from timing of payments. Discontinued operations generated cash flows from operating activities of approximately \$75 million in the first half of fiscal 2005, as compared to cash used in discontinued operations of \$99 million in the first half of fiscal 2004. Cash flow from operating activities is one of the company's primary sources of liquidity.

Cash provided by investing activities totaled \$52 million in the first half of fiscal 2005, versus cash used in investing activities of \$164 million in the same period of fiscal 2004. Investing activities for the first half of fiscal 2005 consisted primarily of proceeds collected from the sale of UAP North America (which were classified as divestiture proceeds receivable as of fiscal year end 2004), proceeds collected from the sale of the company's minority interest investment in the fresh beef and pork business and proceeds collected from the sale of cattle feeding operations. These proceeds were partially offset by expenditures for additions to property, plant and equipment under the company's capital expenditure plans.

Cash used in financing activities totaled \$769 million in the first half of fiscal 2005, as compared to cash used of \$661 million in the first half of fiscal 2004. During the first half of fiscal 2005, the company made scheduled debt payments of \$322 million and paid dividends of \$269 million. The company also repurchased 6.8 million shares of its common stock for \$181 million under its share repurchase program. In the first half of fiscal 2004, the company borrowed \$99 million under its commercial paper program, made scheduled debt payments of \$502 million and paid dividends of \$262 million.

The company estimates its capital expenditures in fiscal 2005 will be approximately \$500 million, reflecting increased investment in information systems and the logistics network. Management believes that existing cash balances, cash flows from operations, existing credit facilities and access to capital markets will provide sufficient liquidity to meet its working capital needs, planned capital expenditures, additional share repurchases and payment of anticipated quarterly dividends.

Off-Balance Sheet Arrangements

The company uses off-balance sheet arrangements (e.g., operating leases) where the economics and sound business principles warrant their use. The company periodically enters 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.

The company has used off-balance sheet arrangements in connection with the securitization and sale of trade receivables generated in the ordinary course of business. As of November 28, 2004, the company had the ability to sell interests in pools of receivables in an amount not to exceed \$400 million at any one time. As of November 28, 2004, the company had no outstanding accounts receivable sold, whereas accounts receivable sold totaled \$400 million as of the end of the second quarter of fiscal 2004. The company terminated this program in December 2005.

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As a result of adopting FIN No. 46R, the company has consolidated the assets and liabilities of several entities from which it leases property, plant and equipment. The company has also deconsolidated ConAgra Capital, L.C., an indirectly controlled subsidiary of the company. Due to the adoption of FIN No. 46R, the company reflects in its balance sheet as of November 28, 2004: property, plant and equipment of \$219 million, long-term debt of \$449 million, other assets of \$57 million and other noncurrent liabilities of \$6 million. None of these balances were reflected in the company's balance sheet

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as of November 23, 2003. The company also removed the preferred securities of subsidiary company of \$175 million upon the deconsolidation of ConAgra Capital, L.C., which securities are now included in the long-term debt balance noted above. The company has no other material obligations arising out of variable interests with unconsolidated entities.

Obligations and Commitments

As part of its ongoing operations, the company enters into arrangements that obligate the company 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 by the company in its normal course of business in order to ensure adequate levels of sourced product are available to the company. Of these items, capital lease and debt obligations, which total \$5.4 billion, are currently recognized as liabilities in the company's consolidated balance sheet. Lease obligations and unconditional purchase obligations, which total \$1.3 billion, are not recognized as liabilities in the company's consolidated balance sheet in accordance with generally accepted accounting principles. Payments in excess of debt service requirements to be made to variable interest entities, which have been consolidated under the requirements of FIN No. 46R, are included in lease obligations.

A summary of the company's contractual obligations as of November 28, 2004 is as follows (including obligations of discontinued operations):

(in millions) Contractual Obligations	Total	Payments Due by Period				After 5 Years
		Less than 1 Year	2-3 Years	4-5 Years		
Long-term debt	\$ 5,387.4	\$ 766.7	\$ 535.7	\$ 58.2	\$ 4,026.8	
Lease obligations	944.0	114.5	232.5	140.4	456.6	
Purchase obligations	377.1	95.3	191.5	49.9	40.4	
Total	\$ 6,708.5	\$ 976.5	\$ 959.7	\$ 248.5	\$ 4,523.8	

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The company is also contractually obligated to pay interest on its long-term debt obligations. The weighted average interest rate of the long-term debt obligations outstanding as of November 28, 2004 was approximately 7.3%. As part of its ongoing operations, the company also enters into arrangements that obligate the company to make future cash payments only upon the occurrence of a future event (e.g., guarantee debt or lease payments of a third party should the third party be unable to perform). The following commercial commitments are not recognized as liabilities in the company's consolidated balance sheet. A summary of the company's commitments, including commitments associated with equity method investments, as of November 28, 2004 is as follows:

(in millions)	Total	Amount of Commitment Expiration Per Period			After 5 Years
		Less than 1 Year	2-3 Years	4-5 Years	
Other Commercial Commitments	\$ 59.2	\$ 7.9	\$ 21.8	\$ 10.4	\$ 19.1
Guarantees	\$ 5.1	\$ 1.4	\$ 3.6	\$ 0.1	
Other commitments	\$ 64.3	\$ 9.3	\$ 25.4	\$ 10.5	\$ 19.1
Total	\$ 64.3	\$ 9.3	\$ 25.4	\$ 10.5	\$ 19.1

The company's total commitments of \$64 million include approximately \$41 million in guarantees and other commitments the company has made on behalf of the divested fresh beef and pork business.

The company has assigned a hog purchase contract to the divested fresh beef and pork business which has indemnified the company for all liabilities under the contract. The company has guaranteed the performance of the divested fresh beef and pork business with respect to the hog purchase contract. The hog purchase contract requires the divested 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.

Trading Activities

The company accounts for certain contracts (e.g., physical commodity purchase/sale contracts and derivative contracts) at fair value. The company considers a portion of these contracts to be its trading activities; specifically, those contracts that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related amendment, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (collectively SFAS No. 133). The table below summarizes the changes in trading assets and liabilities for the twenty-six weeks ended November 28, 2004:

(in millions)	
Net asset outstanding as of May 30, 2004	\$ 26.6
Contracts settled during the period	(22.8)
Changes in fair value of contracts outstanding as of November 28, 2004 ⁽¹⁾	(13.2)
Changes attributable to changes in valuation techniques and assumptions	
Net liability outstanding as of November 28, 2004	\$ (9.4)

(1) Includes option premiums paid and received.

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The following table represents the fair value and scheduled maturity dates of such contracts outstanding as of November 28, 2004:

Source of Fair Value	Fair Value of Contracts as of November 28, 2004 net asset / (liability)			Total Fair Value
	Maturity less than 1 year	Maturity 1-3 years		
Prices actively quoted (i.e., exchange-traded contracts)	\$ (27.9)	\$ 5.8	\$	(22.1)
Prices provided by other external sources (i.e., non-exchange-traded contracts)	12.6	0.1		12.7
Prices based on other valuation models (i.e., non-exchange-traded contracts)				
Total fair value	\$ (15.3)	\$ 5.9	\$	(9.4)

In order to minimize the risk of loss associated with non-exchange-traded transactions with counterparties, the company utilizes established credit limits and performs ongoing counterparty credit evaluations.

The above tables exclude commodity-based contracts entered into in the normal course of business, including physical contracts to buy or sell commodities at agreed-upon fixed prices, as well as derivative contracts (e.g., futures and options) used primarily to hedge an existing asset or liability (e.g., inventory) or an anticipated transaction (e.g., purchase of inventory). The use of such contracts is not considered by the company to be trading activities as these contracts are considered either normal purchase and sale contracts or hedging contracts. The prices actively quoted category reflects only contracts for which the fair value is based entirely upon prices actively quoted on major exchanges in the United States. The prices provided by other external sources category represents contracts which contain a pricing component other than prices actively quoted on a major exchange, such as forward commodity positions at locations for which over-the-counter broker quotes are available.

Critical Accounting Estimates

A discussion of the company's critical accounting estimates is in the Management's Discussion & Analysis section of the company's fiscal 2004 annual report on Form 10-K/A. There have been no significant changes with respect to these policies during the first half of fiscal 2005.

Recently Issued Accounting Pronouncement

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

expected impact that the adoption of SFAS No. 123R will have on its results of operations and cash flows.

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Related Party Transactions

A discussion of the company's related party transactions is in the Management's Discussion & Analysis section of the company's fiscal 2004 annual report on Form 10-K/A. A discussion of the effect of the company's adoption of FIN No. 46R on the accounting for these transactions is presented in Note 1 to the condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The principal market risks affecting the company are exposures to price fluctuations of commodity and energy inputs, interest rates and foreign currencies. These fluctuations impact the trading business, which includes the commodity trading and merchandising functions and the processing businesses, which represent the remaining businesses of the company.

Other than the changes noted below, there have been no material changes in the company's market risk during the twenty-six weeks ended November 28, 2004. For additional information, refer to the subsection Market Risk in the Management's Discussion & Analysis in Item 7 of the fiscal 2004 annual report on Form 10-K/A.

Commodity Market Risk

Commodities The company purchases commodity inputs such as wheat, corn, oats, soybean meal, soybean oil, petroleum products, natural gas and packaging materials to be used in its operations. These commodities are subject to price fluctuations that may create price risk. The company enters into commodity hedges to manage this price risk using physical forward contracts or derivative instruments. ConAgra Foods has policies governing the hedging instruments its businesses may use. These policies include limiting the dollar risk exposure for each of its businesses. The company also monitors the amount of associated counter-party credit risk for all non-exchange-traded transactions. In addition, the company purchases and sells certain commodities such as wheat, corn, cattle, hogs, soybeans, soybean meal, soybean oil, oats, petroleum products and natural gas in its trading operations. The company's trading activities are limited in terms of maximum dollar exposure and monitored to ensure compliance.

One measure of market risk exposure can be determined using sensitivity analysis. Sensitivity analysis is the measurement of potential loss of fair value of a derivative instrument resulting from a hypothetical change of 10% in market prices. Actual changes in market prices may differ from hypothetical changes. In reality, as markets move, the company actively manages its risk and adjusts hedging strategies as appropriate. This sensitivity analysis excludes the underlying commodity positions that are being hedged which have a high inverse correlation to price

changes of the derivative commodity instrument.

Fair value was determined using quoted market prices and was based on the company's net derivative position by commodity. In the second quarter of fiscal 2005, the company acquired certain live cattle inventory and related derivative instruments in connection with an agreement reached with affiliates of Swift Foods by which the company took control and ownership of the net assets of a cattle feeding business, thereby increasing the company's usage of meats derivatives.

For the second quarter of fiscal 2005, the maximum potential loss of fair value resulting from a hypothetical change of 10% in market prices was \$39 million based on the company's net meats derivative positions at quarter end. For the second quarter of fiscal 2005, the maximum potential loss of fair value resulting from a hypothetical change of 10% in market prices in the company's net energy derivative positions was \$41

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million at quarter end. The highest potential loss of fair value resulting from a hypothetical change of 10% in market prices was \$4 million for the company's net meats derivative positions and \$17 million for the company's net energy derivative positions outstanding at the end of any quarter of fiscal 2004.

Item 4. Controls and Procedures

In connection with the preparation of this Form 10-Q/A, the company carried out a re-evaluation under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that re-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, because of the material weakness in internal control discussed below, were not effective in ensuring that the information required to be disclosed by the company in the reports that it files under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There were no significant changes to the company's internal control over financial reporting during the most recent quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. Subsequent to the second quarter of fiscal 2005, the company implemented various process and information systems enhancements, principally related to the implementation of SAP software and related business process improvements in the Retail Products segment and portions of the Foodservice Products segment. These process and information systems enhancements have resulted in modifications to the internal controls over sales, customer service, inventory management and accounts receivable processes.

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

To address the errors discovered as a part of this process, and as announced in its Form 8-K filed with the SEC on March 24, 2005, the company is restating financial statements for the periods covered in its Form 10-K for the fiscal year ended May 30, 2004 and the Form 10-Q's for the first two quarters of fiscal 2005. See "Restatement of Condensed Consolidated Financial Statements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A material weakness in internal control is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by the company. The company has evaluated the effectiveness of its internal control over accounting for income taxes as of the end of the period covered by this report, and has determined the accounting errors referenced above indicate a material weakness in internal controls with respect to accounting for income taxes. The company is taking steps to ensure that the material weakness is remedied, including hiring a new Vice President of Tax and additional tax accounting staff, as well as implementing enhanced control processes over accounting for taxes, including the assistance of third-party professionals.

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Item 1. Legal Proceedings

The company previously reported certain information regarding legal proceedings in its Form 10-K/A for the fiscal year ended May 30, 2004.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 4, 2003, the company announced a share repurchase program of up to \$1 billion, authorized by the company's Board of Directors. During the first quarter of fiscal 2005, the company purchased 6.8 million shares at a cost of \$181 million under this program. From the inception of the program through November 28, 2004, the company has purchased 22.1 million shares at a cost of \$600 million. There were no share repurchases under this program during the second quarter of fiscal 2005.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽²⁾	Approximate Dollar Value of Shares that may yet be Purchased under the Program ⁽²⁾
August 30 through September 26, 2004	14,548	\$ 26.32	\$	399,900,000
September 27 through October 24, 2004	51,151	\$ 25.89	\$	399,900,000
October 25 through November 28, 2004	6,085	\$ 27.26	\$	399,900,000
Total Fiscal 2005 Second Quarter	71,784	\$ 26.10	\$	399,900,000

(1) Shares delivered to the company to pay the exercise price under stock options or to satisfy tax withholding obligations upon the exercise of stock options or vesting of restricted shares.

(2) Pursuant to the share repurchase plan announced on December 4, 2003 of up to \$1 billion. This program has no expiration date.

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Item 6. Exhibits

(A) Exhibits

- 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

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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/ Frank S. Sklarsky

Frank S. Sklarsky
*Executive Vice President, Chief
Financial Officer*

By:

/s/ John F. Gehring

John F. Gehring
Senior Vice President and Corporate Controller

Dated this 29th day of April, 2005.

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Exhibit Index

EXHIBIT	DESCRIPTION	PAGE
<u>12</u>	<u>Statement regarding computation of ratio of earnings to fixed charges</u>	<u>53</u>
<u>31.1</u>	<u>Section 302 Certificate of Chief Executive Officer</u>	<u>54</u>
<u>31.2</u>	<u>Section 302 Certificate of Chief Financial Officer</u>	<u>55</u>
<u>32.1</u>	<u>Section 906 Certificates</u>	<u>56</u>