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JAMES STEWART  
Member of the Firm

Tel 973.597.2522 Fax 973.597.2523  
jstewart@lowenstein.com

June 23, 2006



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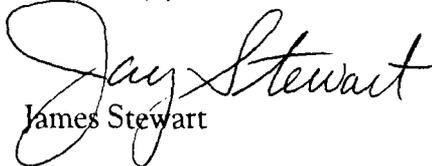
Ms. Kristin Courcier  
OES Financial Assurance Coordinator  
United States Environmental Protection Agency  
Mail Code SES  
One Congress Street, Suite 110  
Boston, MA 02114-2023

Re: **United States of America v. Wildwood Conservation Corporation, et al**

Dear Ms. Courcier:

In response to the June 1, 2006 letter of Gretchen Muench and her request that we provide, on behalf of Beatrice Company, updated information to meet the financial assurance requirements of the Consent Decree I enclose a copy of the most recent Form 10-Q of ConAgra Foods, Inc., which provides information sufficient to establish that ConAgra Foods, Inc. has adequate resources to satisfy the Work obligations of Beatrice Company under the Consent Decree.

Very truly yours,

  
James Stewart

JS:ab

B2038/52  
06/23/06 1976154.01

Enclosure(s)

cc: Gretchen Muench (w/enc.)



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 26, 2006

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**  
(State or other jurisdiction of  
incorporation or organization)

**One ConAgra Drive, Omaha, Nebraska**  
(Address of Principal Executive Offices)

**47-0248710**  
(I.R.S. Employer  
Identification No.)

**68102-5001**  
(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding of issuer's common stock, as of March 24, 2006, was 519,362,118.

**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)

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Net sales	\$ 2,878.9	\$ 2,756.3	\$ 8,604.8	\$ 8,505.1
Costs and expenses:				
Cost of goods sold	2,164.1	2,046.1	6,494.2	6,361.5
Selling, general and administrative expenses	525.4	459.6	1,369.1	1,246.9
Interest expense, net	61.8	68.1	192.2	227.3
Gain on sale of Pilgrim's Pride Corporation common stock	---	185.7	329.4	185.7
Income from continuing operations before income taxes and equity method investment earnings (loss)	127.6	368.2	878.7	855.1
Income tax expense	34.3	144.8	302.1	341.8
Equity method investment earnings (loss)	(0.6)	(64.0)	(31.2)	(34.8)
Income from continuing operations	92.7	159.4	545.4	478.5
Income (loss) from discontinued operations, net of tax	(124.4)	5.9	(61.9)	61.2
<b>Net income (loss)</b>	<b>\$ (31.7)</b>	<b>\$ 165.3</b>	<b>\$ 483.5</b>	<b>\$ 539.7</b>
<b>Earnings per share – basic</b>				
Income from continuing operations	\$ 0.18	\$ 0.31	\$ 1.05	\$ 0.93
Income (loss) from discontinued operations	(0.24)	0.01	(0.12)	0.12
<b>Net income (loss)</b>	<b>\$ (0.06)</b>	<b>\$ 0.32</b>	<b>\$ 0.93</b>	<b>\$ 1.05</b>
<b>Earnings per share – diluted</b>				
Income from continuing operations	\$ 0.18	\$ 0.31	\$ 1.05	\$ 0.92
Income (loss) from discontinued operations	(0.24)	0.01	(0.12)	0.12
<b>Net income (loss)</b>	<b>\$ (0.06)</b>	<b>\$ 0.32</b>	<b>\$ 0.93</b>	<b>\$ 1.04</b>

See notes to the condensed consolidated financial statements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income**  
(in millions)  
(unaudited)

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Net income (loss)	\$ (31.7)	\$ 165.3	\$ 483.5	\$ 539.7
Other comprehensive income (loss):				
Net derivative adjustment, net of tax	(14.7)	4.9	15.1	(10.6)
Unrealized gain (loss) on available-for-sale securities, net of tax:				
Unrealized holding gains (losses) arising during the period	1.0	103.5	(15.6)	145.9
Less: reclassification adjustment for (gains) losses included in net income	21.9	(115.2)	(73.4)	(115.2)
Currency translation adjustment	5.8	(8.2)	14.9	21.1
Comprehensive income	<u>\$ (17.7)</u>	<u>\$ 150.3</u>	<u>\$ 424.5</u>	<u>\$ 580.9</u>

See notes to the condensed consolidated financial statements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(dollars in millions except per share amounts)  
(unaudited)

	February 26, 2006	May 29, 2005	February 27, 2005
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 237.2	\$ 207.6	\$ 8.6
Receivables, less allowance for doubtful accounts of \$31.0, \$30.7 and \$31.9	1,159.4	1,260.8	1,352.9
Inventories	2,489.1	2,153.6	2,408.1
Prepaid expenses and other current assets	436.5	631.3	513.1
Current assets held for sale	448.6	521.5	761.6
Total current assets	<u>4,770.8</u>	<u>4,774.8</u>	<u>5,044.3</u>
Property, plant and equipment	4,865.0	4,807.5	4,904.1
Less accumulated depreciation	(2,560.2)	(2,436.6)	(2,493.9)
Property, plant and equipment, net	<u>2,304.8</u>	<u>2,370.9</u>	<u>2,410.2</u>
Goodwill	3,448.0	3,451.5	3,452.5
Brands, trademarks and other intangibles, net	799.8	801.0	797.0
Other assets	404.6	798.4	836.2
Noncurrent assets held for sale	655.0	846.2	880.8
	<u>\$ 12,383.0</u>	<u>\$ 13,042.8</u>	<u>\$ 13,421.0</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Notes payable	\$ 11.1	\$ 8.5	\$ 57.7
Current installments of long-term debt	420.1	117.3	115.6
Accounts payable	891.8	781.6	941.0
Advances on sales	137.3	149.6	170.7
Accrued payroll	236.5	270.0	204.5
Other accrued liabilities	1,212.7	1,247.1	1,391.7
Current liabilities held for sale	41.6	65.6	142.6
Total current liabilities	<u>2,951.1</u>	<u>2,639.7</u>	<u>3,023.8</u>
Senior long-term debt, excluding current installments	3,010.9	3,949.1	3,953.4
Subordinated debt	400.0	400.0	400.0
Other noncurrent liabilities	1,131.1	1,189.2	1,145.2
Noncurrent liabilities held for sale	4.4	5.4	7.1
Total liabilities	<u>7,497.5</u>	<u>8,183.4</u>	<u>8,529.5</u>
Commitments and contingencies (Note 10)			
Common stockholders' equity			
Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 566,209,519, 565,942,765 and 565,929,894	2,831.0	2,829.7	2,829.7
Additional paid-in capital	758.2	761.6	756.4
Retained earnings	2,497.5	2,438.1	2,475.3
Accumulated other comprehensive income (loss)	(14.9)	44.0	61.1
Less treasury stock, at cost, 46,889,778, 47,841,291 and 48,178,291 common shares	<u>(1,183.8)</u>	<u>(1,209.3)</u>	<u>(1,225.1)</u>
	4,888.0	4,864.1	4,897.4
Less unearned restricted stock	<u>(2.5)</u>	<u>(4.7)</u>	<u>(5.9)</u>
Total common stockholders' equity	<u>4,885.5</u>	<u>4,859.4</u>	<u>4,891.5</u>
	<u>\$ 12,383.0</u>	<u>\$ 13,042.8</u>	<u>\$ 13,421.0</u>

See notes to the condensed consolidated financial statements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(in millions)  
(unaudited)

	Thirty-nine weeks ended	
	February 26, 2006	February 27, 2005
Cash flows from operating activities:		
Net income	\$ 483.5	\$ 539.7
Income (loss) from discontinued operations	(61.9)	61.2
Income from continuing operations	545.4	478.5
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	228.1	210.6
Gain on sale of Pilgrim's Pride Corporation common stock, pretax (see Note 2)	(329.4)	(185.7)
Loss (Gain) on sale of businesses	0.7	—
Loss (Gain) on sale of fixed assets	(3.3)	(13.2)
Undistributed earnings of affiliates	(1.2)	(13.7)
Non-cash impairments of investments	99.0	73.4
Non-cash impairments of fixed assets	13.8	35.3
Other items (includes pension and other postretirement benefits)	4.7	70.6
Change in operating assets and liabilities before effects of business dispositions:		
Accounts receivable	63.5	(103.7)
Inventory	(352.2)	(308.5)
Prepaid expenses and other current assets	218.9	(16.2)
Accounts payable and advances on sales	116.4	96.0
Other accrued liabilities	(59.6)	258.1
Net cash flows from operating activities – continuing operations	544.8	581.5
Net cash flows from operating activities – discontinued operations	178.1	26.5
Net cash flows from operating activities	722.9	608.0
Cash flows from investing activities:		
Additions to property, plant and equipment	(176.5)	(291.6)
Sale of investment in Swift Foods and UAP preferred securities	—	229.5
Sale of Pilgrim's Pride Corporation common stock	482.4	282.5
Sale of businesses	18.3	—
Sale of equity method investments	12.2	—
Sale of property, plant and equipment	24.0	51.0
Notes receivable and other items	(4.5)	(33.0)
Net cash flows from investing activities – continuing operations	355.9	238.4
Net cash flows from investing activities – discontinued operations	(0.8)	184.4
Net cash flows from investing activities	355.1	422.8
Cash flows from financing activities:		
Net short-term borrowings	2.6	27.1
Repayment of long-term debt	(642.3)	(1,153.9)
Repurchase of ConAgra Foods common shares	—	(181.4)
Cash dividends paid	(423.8)	(409.4)
Proceeds from exercise of employee stock options	14.4	89.3
Other items	0.7	(1.5)
Net cash flows from financing activities – continuing operations	(1,048.4)	(1,629.8)
Net cash flows from financing activities – discontinued operations	—	(1.0)
Net cash flows from financing activities	(1,048.4)	(1,630.8)
Net change in cash and cash equivalents	29.6	(600.0)
Cash and cash equivalents at beginning of period	207.6	608.6
Cash and cash equivalents at end of period	<u>\$ 237.2</u>	<u>\$ 8.6</u>

See notes to the condensed consolidated financial statements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 26, 2006 and February 27, 2005**  
(columnar dollars in millions except per share amounts)

**1. Summary of Significant Accounting Policies**

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the "company") fiscal 2005 annual report on Form 10-K.

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.

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

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

**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. The company issues stock under various stock-based compensation arrangements, including restricted stock, other share-based awards and stock issued in lieu of cash bonuses. The value of restricted stock and other share-based awards, 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. As these awards are ultimately settled in shares of the company's stock, changes in the price of the company's stock subsequent to the date of grant do not result in remeasurement of the award. In addition, the company grants restricted share equivalents pursuant to plans approved by stockholders which are ultimately settled in cash based on

**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 26, 2006 and February 27, 2005**  
(columnar dollars in millions except per share amounts)

the market price of the company's stock as of the date the award is fully vested. The value of the restricted share equivalents is adjusted, based upon the market price of the company's stock at the end of each reporting period and amortized as compensation expense over the vesting period.

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		Thirty-nine weeks ended	
	February 26, 2006	February 27, 2005	February 26, 2006	February 27, 2005
Net income (loss), as reported	\$ (31.7)	\$ 165.3	\$ 483.5	\$ 539.7
Add: Stock-based employee compensation included in reported net income (loss), net of related tax effects	1.7	4.1	13.9	11.6
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(4.1)	(8.1)	(21.7)	(24.0)
Pro forma net income (loss)	<u>\$ (34.1)</u>	<u>\$ 161.3</u>	<u>\$ 475.7</u>	<u>\$ 527.3</u>
Earnings per share:				
Basic earnings (loss) per share – as reported	\$ (0.06)	\$ 0.32	\$ 0.93	\$ 1.05
Basic earnings (loss) per share – pro forma	\$ (0.07)	\$ 0.31	\$ 0.92	\$ 1.02
Diluted earnings (loss) per share – as reported	\$ (0.06)	\$ 0.32	\$ 0.93	\$ 1.04
Diluted earnings (loss) per share – pro forma	\$ (0.07)	\$ 0.31	\$ 0.92	\$ 1.01

**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 generally 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. When the company determines that a foreign investment is no longer permanent in nature, estimated taxes are provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments.

**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 26, 2006 and February 27, 2005**  
(columar dollars in millions except per share amounts)

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

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Net derivative adjustment	\$ (8.4)	\$ 3.0	\$ 10.0	\$ (6.2)
Unrealized gains (losses) on available-for-sale securities	0.6	64.0	(9.1)	90.0
Less: reclassification adjustment for (gains) losses included in net income	13.5	(70.6)	(41.3)	(70.6)
	<u>\$ 5.7</u>	<u>\$ (3.6)</u>	<u>\$ (40.4)</u>	<u>\$ 13.2</u>

**Reclassifications** – Certain reclassifications have been made to prior year amounts to conform to current year classifications. The company has reclassified the fair value of certain derivative contracts for which it does not have the legal right of offset, which had previously been presented on a net basis, to a gross presentation within prepaid expenses and other current assets and other accrued liabilities. This change in presentation resulted in an increase to both prepaid expenses and other current assets and other accrued liabilities of \$251.1 million and \$99.7 million as of May 29, 2005 and February 27, 2005, respectively.

**Recently Issued Accounting Pronouncements** – In December 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). Accordingly, the adoption of SFAS No. 123R will have an impact on the company’s results of operations, although it will have no impact on the company’s overall financial position. SFAS No. 123R is effective beginning in the company’s first quarter of fiscal 2007. Management is currently evaluating the impact that the adoption of this statement will have on the company’s consolidated results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* (“SFAS No. 151”). SFAS No. 151 amends the guidance in ARB No. 43, *Inventory Pricing*, for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), requiring that those items be recognized as current-period expenses. This statement also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The statement is effective for inventory costs incurred beginning in the company’s fiscal 2007. Management does not expect this statement to have a material impact on the company’s consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143* (“FIN 47”). FIN 47 clarifies that the term “conditional asset retirement obligation”, as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even

**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 26, 2006 and February 27, 2005**  
(columnar dollars in millions except per share amounts)

though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The statement must be applied by the end of fiscal 2006. Management does not expect this statement to have a material impact on the company's consolidated financial position or results of operations.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements.

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

**2. Discontinued Operations and Assets Held for Sale**

*Packaged Meats and Cheese Operations*

During the third quarter of fiscal 2006, the company announced that it would divest substantially all of its packaged meats and cheese operations. The company expects to complete the disposition of these businesses within twelve months and expects to have no significant continuing involvement in these businesses after the disposal. Accordingly, the company has removed the results of these operations from the Retail Products and Foodservice Products reporting segments and reflects the results of these businesses as discontinued operations for all periods presented. Based upon the company's estimate of proceeds from the sale of these businesses, the company recognized a goodwill impairment charge of \$165.6 million (\$149.6 million after-tax) to reflect the net assets of these businesses at their estimated fair value, less costs to sell, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The assets and liabilities expected to be divested are now classified as assets and liabilities held for sale within the company's consolidated balance sheets for all periods presented.

The estimate of proceeds was based upon a comprehensive analysis which included probability-weighted assessments of key variables which will affect the ultimate proceeds realized. The key variables considered included the nature of potential buyers, estimated future cash flows from the operations, and the valuation multiple that potential buyers may assign to the cash flows. While the company believes its current estimate of proceeds is based on the best available information, future events, including, but not limited to, negotiations with potential buyers and future performance of the business, could significantly affect the amount of proceeds ultimately received. Accordingly, changes in the amount of proceeds could result in impairment charges greater or less than the amount currently estimated and recognized in the company's financial statements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**For the Thirty-nine Weeks ended February 26, 2006 and February 27, 2005**  
(columnar dollars in millions except per share amounts)

*Cook's Hams Business*

During the third quarter of fiscal 2006, the company signed a definitive agreement with Smithfield Foods, Inc. to sell substantially all of the net assets of its Cook's Hams business. The company expects to have no significant continuing involvement in this business after the disposal. Accordingly, the company has removed the results of these operations from the Retail Products reporting segment and reflects the results of this business as discontinued operations for all periods presented. The company completed the sale of this business in April 2006 at a price in excess of the carrying amount of net assets. The assets and liabilities divested are now classified as assets and liabilities held for sale within the company's consolidated balance sheets for all periods presented.

*Seafood Business*

During the third quarter of fiscal 2006, the company initiated a plan to sell its seafood operations. The company expects to have no significant continuing involvement in this business after the disposal. Accordingly, the company has removed the results of these operations from the Retail Products and Foodservice Products reporting segments and reflects the results of this business as discontinued operations for all periods presented. Based upon the offers received for this business, the company recognized a goodwill impairment charge of \$0.5 million to reflect the net assets of this business at their fair value, less costs to sell. The company completed the sale of this business in April 2006. The assets and liabilities divested are now classified as assets and liabilities held for sale within the company's consolidated balance sheets for all periods presented.

*Chicken Business Divestiture*

In November 2003, the company completed the sale of its chicken business to Pilgrim's Pride Corporation. A portion of the proceeds from this divestiture was in the form of 25.4 million shares of Pilgrim's Pride Corporation common stock initially valued at \$246.1 million. The fair value of the Pilgrim's Pride Corporation 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.

During the third quarter of fiscal 2005, the company sold ten million shares of the Pilgrim's Pride Corporation common stock for \$282.5 million, resulting in a pre-tax gain of \$185.7 million and a net-of-tax reclassification from accumulated other comprehensive income of \$115.2 million.

During the first quarter of fiscal 2006, the company sold the remaining 15.4 million shares of the Pilgrim's Pride Corporation common stock for \$482.4 million, resulting in a pre-tax gain of \$329.4 million (\$209.3 million after tax) and a net-of-tax reclassification from accumulated other comprehensive income of \$95.3 million. The following table provides details of the gain recognized in the first quarter of fiscal 2006:

Amounts included in accumulated other comprehensive income at May 29, 2005 for 6.96 million shares classified as available-for-sale	\$ 180.5
Reduction in value (including sales commission) associated with shares classified as available-for-sale from May 29, 2005 to August 3, 2005	(34.0)
Gain realized on the additional 8.48 million shares not classified as available-for-sale	<u>182.9</u>
Total pre-tax gain	<u>\$ 329.4</u>

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*UAP Divestiture*

In the fourth quarter of fiscal 2005, the company completed the disposition of the remaining businesses of its Agricultural Products segment ("UAP International"). The company reflects the results of the Agricultural Products segment as discontinued operations for all periods presented. The assets and liabilities divested are classified as assets and liabilities held for sale within the company's consolidated balance sheets for periods prior to divestiture.

*Portuguese Poultry Divestiture*

The company completed the sale of the Portuguese poultry business in the first quarter of fiscal 2005. The company removed the results of this business from the Food Ingredients reporting segment and reflects the results of this business as discontinued operations for all periods presented.

*Specialty Meats Divestiture*

In the fourth quarter of fiscal 2005, the company implemented a plan to exit the specialty meats foodservice business. The company closed a manufacturing facility in Alabama, sold its operations in California and, in the first quarter of fiscal 2006, completed the sale of its operations in Illinois. Accordingly, the company removed the results of these businesses, including impairment charges, from the Foodservice Products reporting segment and reflects the results of these businesses as discontinued operations for all periods presented. The assets and liabilities divested are classified as assets and liabilities held for sale within the company's consolidated balance sheets for all periods prior to divestiture.

The company recorded charges in the third and fourth quarters of fiscal 2005, reducing the carrying values of the assets at the Alabama and Illinois facilities to their expected salvage values. During the first quarter of fiscal 2006, the company sold these facilities and recognized pre-tax gains within results of discontinued operations totaling approximately \$6 million.

*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"). The fresh beef operations sold to the joint venture included a beef processing business as well as a cattle feeding business. The company reported its share of the earnings associated with its minority ownership of the joint venture as equity method investment earnings. The company sold its remaining minority interest investment in the beef and pork processing business ("Swift Foods") to Hicks Muse in September 2004. 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 were reflected in the company's financial statements prior to October 15, 2004. 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 million (net of taxes of \$11.6 million). The company retained live cattle inventory and related derivative instruments and liquidated those assets in an orderly manner over the succeeding several months. 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.

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The results of the aforementioned businesses which have been divested or which the company intends to divest over the next several months are included within discontinued operations. The summary comparative financial results of the discontinued operations were as follows:

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Net sales	<u>\$ 616.4</u>	<u>\$ 1,029.9</u>	<u>\$ 2,081.2</u>	<u>\$ 3,152.5</u>
Long-lived asset impairment charge	\$ (166.1)	\$ (3.0)	\$ (166.1)	\$ (28.6)
Income (loss) from operations of discontinued operations before income taxes	39.7	12.2	134.6	113.8
Net gain from disposal of businesses	<u>0.3</u>	<u>1.6</u>	<u>0.3</u>	<u>32.9</u>
Income (loss) before income taxes	(126.1)	10.8	(31.2)	118.1
Income tax (expense) benefit	<u>1.7</u>	<u>(4.9)</u>	<u>(30.7)</u>	<u>(56.9)</u>
Income (loss) from discontinued operations, net of tax	<u>\$ (124.4)</u>	<u>\$ 5.9</u>	<u>\$ (61.9)</u>	<u>\$ 61.2</u>

*Other Assets Held for Sale*

During the third quarter of fiscal 2006, the company initiated a plan to dispose of a refrigerated meals business with annual revenues of less than \$70 million. The company currently expects to complete the sale of these operations within twelve months and also expects to continue to supply certain ingredients to this business and purchase finished product from this business subsequent to its divestiture. Due to the company's expected significant continuing cash flows associated with this business, the company continues to include the results of operations of this business in continuing operations. The assets and liabilities of this business are classified as assets and liabilities held for sale in the consolidated balance sheets for all periods presented.

During the third quarter of fiscal 2006, the company initiated a plan to dispose of two aircraft. These long-lived assets are classified as assets held for sale in the consolidated balance sheets for all periods presented.

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The assets and liabilities classified as held for sale as of February 26, 2006, May 29, 2005 and February 27, 2005 are as follows:

	<u>February 26, 2006</u>	<u>May 29, 2005</u>	<u>February 27, 2005</u>
Receivables, less allowances for doubtful accounts	\$ 44.3	\$ 32.1	\$ 111.5
Inventories	404.3	489.4	645.2
Prepaid expenses and other current assets	—	—	4.9
Current assets of discontinued operations	<u>\$ 448.6</u>	<u>\$ 521.5</u>	<u>\$ 761.6</u>
Property, plant and equipment, net	\$ 456.3	\$ 481.3	\$ 502.8
Goodwill and other intangibles	198.7	364.9	373.2
Other assets	—	—	4.8
Noncurrent assets of discontinued operations	<u>\$ 655.0</u>	<u>\$ 846.2</u>	<u>\$ 880.8</u>
Notes payable	\$ —	\$ —	\$ 22.2
Accounts payable	27.9	42.9	82.9
Other accrued liabilities and advances on sales	13.7	22.7	37.5
Current liabilities of discontinued operations	<u>\$ 41.6</u>	<u>\$ 65.6</u>	<u>\$ 142.6</u>
Noncurrent liabilities of discontinued operations	<u>\$ 4.4</u>	<u>\$ 5.4</u>	<u>\$ 7.1</u>

**3. Goodwill and Other Identifiable Intangible Assets**

Goodwill by reporting segment was as follows:

	<u>February 26, 2006</u>	<u>May 29, 2005</u>	<u>February 27, 2005</u>
Retail Products	\$ 3,153.2	\$ 3,155.7	\$ 3,156.6
Foodservice Products	258.5	259.0	259.0
Food Ingredients	36.3	36.8	36.9
Total	<u>\$ 3,448.0</u>	<u>\$ 3,451.5</u>	<u>\$ 3,452.5</u>

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Other identifiable intangible assets were as follows:

	February 26, 2006		May 29, 2005		February 27, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	\$ 773.7	\$ —	\$ 773.4	\$ —	\$ 771.6	\$ —
Amortizing intangible assets	40.7	14.6	39.8	12.2	37.0	11.6
	\$ 814.4	\$ 14.6	\$ 813.2	\$ 12.2	\$ 808.6	\$ 11.6

Non-amortizing intangible assets are comprised of the following balances:

	February 26, 2006	May 29, 2005	February 27, 2005
Brands/Trademarks	\$ 752.9	\$ 752.5	\$ 750.0
Pension Intangible Asset	19.4	19.5	20.2
Miscellaneous	1.4	1.4	1.4
Total non-amortizing intangible assets	\$ 773.7	\$ 773.4	\$ 771.6

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 February 26, 2006, amortization expense is estimated to be approximately \$2.9 million for each of the next five years.

**4. Derivative Financial Instruments**

As of February 26, 2006, May 29, 2005 and February 27, 2005, the fair value of derivatives recognized within prepaid expenses and other current assets was \$247.2 million, \$300.2 million and \$168.0 million, respectively, while the amount recognized within other accrued liabilities was \$175.9 million, \$266.9 million and \$112.2 million, respectively.

For the quarters ending February 26, 2006 and February 27, 2005, the ineffectiveness associated with derivatives designated as cash flow and fair value hedges resulted in a loss of \$2.9 million and a gain of \$0.3 million, respectively. For the three quarters ending February 26, 2006 and February 27, 2005, the ineffectiveness associated with derivatives designated as hedges resulted in a gain of \$6.5 million and \$0.4 million, respectively. Hedge ineffectiveness is recognized within net sales, cost of goods sold or interest expense, depending on the nature of the hedge. The company does not exclude any component of the hedging instrument's gain or loss when assessing effectiveness.

Generally, the company hedges a portion of its anticipated consumption of certain commodity inputs for periods ranging from 0 to 36 months. The company may enter into longer-term hedges on particular commodities if deemed appropriate. As of February 26, 2006, the company had hedged certain portions of its anticipated consumption of commodity inputs through March 2008.

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As of February 26, 2006, May 29, 2005 and February 27, 2005, the net deferred gain or loss recognized in accumulated other comprehensive income was a \$22.7 million gain, a \$7.7 million gain and a \$2.1 million loss, net of tax, respectively. The company anticipates a gain of \$13.0 million, net of 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 \$9.7 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 is being recognized over the term of the debt instruments originally hedged.

Of the \$2.5 billion interest rate swaps closed out in fiscal 2004, \$2.0 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 \$3.1 million and \$10.1 million due to the net impact of interest rate swap agreements in the third quarter and first three quarters of fiscal 2006, respectively, and was reduced by \$12.1 million and \$22.8 million in the comparable periods of fiscal 2005.

**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.

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

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>	<u>February 26, 2006</u>	<u>February 27, 2005</u>
<b>Net income (loss):</b>				
Income from continuing operations	\$ 92.7	\$ 159.4	\$ 545.4	\$ 478.5
Income (loss) from discontinued operations, net of tax	(124.4)	5.9	(61.9)	61.2
Net income (loss)	<u>\$ (31.7)</u>	<u>\$ 165.3</u>	<u>\$ 483.5</u>	<u>\$ 539.7</u>
<b>Weighted Average Shares Outstanding:</b>				
Basic weighted average shares outstanding	519.0	515.7	518.6	515.8
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	1.9	4.6	2.1	4.3
Diluted weighted average shares outstanding	<u>520.9</u>	<u>520.3</u>	<u>520.7</u>	<u>520.1</u>

For the third quarter and first three quarters of fiscal 2006 there were 27.1 million and 18.6 million stock options, respectively, outstanding that were excluded from the computation of shares contingently issuable upon exercise of the stock options because exercise prices exceeded the average market value of common stock during the period. For the third quarter and first three quarters of fiscal 2005, 2.1 million and 7.0 million stock options, respectively, were excluded from the calculation.

**6. Inventories**

The major classes of inventories are as follows:

	<u>February 26, 2006</u>	<u>May 29, 2005</u>	<u>February 27, 2005</u>
Raw materials and packaging	\$ 1,254.7	\$ 912.7	\$ 1,079.1
Work in progress	94.0	62.1	86.5
Finished goods	965.2	1,056.0	1,073.6
Supplies and other	175.2	122.8	168.9
	<u>\$ 2,489.1</u>	<u>\$ 2,153.6</u>	<u>\$ 2,408.1</u>

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7. **Restructuring Costs and Other Cost Reduction Efforts**

*Fiscal 2006-2008 Plan*

In February 2006, the company announced a restructuring plan to simplify its operating structure and reduce its manufacturing and selling, general and administrative costs. Projects identified to date include moving its Grocery Foods headquarters from Irvine, California to Naperville, Illinois, further centralizing its shared services, and other cost-reduction initiatives. These projects are expected to be substantially complete by fiscal 2008 and do not impact the Food Ingredients reporting segment. The company will incur expenses associated with its restructuring plan, including but not limited to, accelerated depreciation (i.e., incremental depreciation due to an asset's reduced estimated useful life) and plan implementation costs (e.g., consulting, employee relocation, etc.) The company anticipates it will recognize the following pre-tax expenses associated with the projects identified to date in the fiscal 2006 to 2008 timeframe (amounts include charges recognized in the third quarter of fiscal 2006):

	<u>Retail Products</u>	<u>Foodservice Products</u>	<u>Corporate</u>	<u>Total</u>
Accelerated depreciation	\$ 42.4	\$ 5.1	\$ —	\$ 47.5
Inventory writedowns	2.2	1.1	—	3.3
Other (including plant shutdown costs)	<u>14.2</u>	<u>2.5</u>	<u>—</u>	<u>16.7</u>
Total cost of goods sold	<u>58.8</u>	<u>8.7</u>	<u>—</u>	<u>67.5</u>
Accelerated depreciation	6.0	—	.4	6.4
Asset impairment	4	13.3	—	13.7
Severance (and related)	27.3	3.8	9.3	40.4
Contract termination	—	—	1.2	1.2
Plan implementation costs	11.2	.2	34.6	46.0
Other	<u>7.9</u>	<u>—</u>	<u>—</u>	<u>7.9</u>
Total selling, general and administrative expenses	<u>52.8</u>	<u>17.3</u>	<u>45.5</u>	<u>115.6</u>
Consolidated total	<u>\$ 111.6</u>	<u>\$ 26.0</u>	<u>\$ 45.5</u>	<u>\$ 183.1</u>

Included in the above are approximately \$107 million of charges anticipated to result in cash outflows and \$76 million of non-cash charges.

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In the third quarter of fiscal 2006, the company recognized the following pre-tax charges in its income statement:

	<u>Retail Products</u>	<u>Foodservice Products</u>	<u>Corporate</u>	<u>Total</u>
Accelerated depreciation	\$ 2.9	\$ .4	\$ —	\$ 3.3
Inventory writedowns	1.3	.5	—	1.8
Other (including plant shutdown costs)	—	—	—	—
Total cost of goods sold	<u>4.2</u>	<u>.9</u>	<u>—</u>	<u>5.1</u>
Accelerated depreciation	.9	—	—	.9
Asset impairment	.4	13.3	—	13.7
Severance (and related)	14.7	3.8	2.0	20.5
Contract termination	—	—	—	—
Plan implementation costs	2.5	.2	7.5	10.2
Other	—	—	—	—
Total selling, general and administrative expense	<u>18.5</u>	<u>17.3</u>	<u>9.5</u>	<u>45.3</u>
Consolidated total	<u>\$ 22.7</u>	<u>\$ 18.2</u>	<u>\$ 9.5</u>	<u>\$ 50.4</u>

Included in the above are approximately \$31 million of charges anticipated to result in cash outflows and approximately \$19 million of non-cash charges. Associated with the above activity, as of the end of the fiscal 2006 third quarter, the company had a current liability recognized in its consolidated balance sheet of \$20.5 million.

Reflected in the above tables is an asset impairment charge of \$13.3 million associated with a Foodservice Products manufacturing facility. The facility was written down to its fair value based on discounted estimated cash flows of the facility over its expected holding period, including the anticipated proceeds associated with the manufacturing equipment, land and building which will be realized upon closure of the facility.

The company expects to identify additional initiatives over the next several quarters which are expected to result in additional charges.

Other Cost Reduction Efforts

As a result of a Retail Products plant closure in the first quarter of fiscal 2006, the company recognized pre-tax charges of \$6.5 million, primarily for expenses related to severance and accelerated depreciation. In the second quarter of fiscal 2006, the company recognized pre-tax charges of \$2.6 million in connection with severance costs at a production facility within the Food Ingredients segment.

As part of the company's ongoing efforts to reduce general and administrative expenses, including salaried headcount, during the fourth quarter of fiscal 2005 the company announced it was in the process of eliminating several hundred salaried jobs across the organization and recognized \$42.7 million of severance expense primarily within its Retail Products segment and Corporate administration. The headcount reductions were largely completed during the first quarter of fiscal 2006. As of February 26, 2006, \$5.9 million was included in other accrued liabilities in the company's consolidated balance sheet for the settlement of severance costs. These liabilities are expected to be paid over the next several months.

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In fiscal 2004, the company identified specific operating efficiency initiatives as part of an effort to improve the company's cost structure, margins and competitive position. As a result of these specific initiatives, the company recognized certain expenses during fiscal 2004 and 2005, including employee termination costs, accelerated depreciation on fixed assets, equipment/employee relocation costs, asset impairments and other related costs. The company recognized \$0.6 million and \$9.0 million of expenses in the third quarter and first three quarters, respectively, of fiscal 2005 for these initiatives. These costs were primarily incurred in the Retail Products segment.

**8. Impairments of Equity and Debt Investments**

During the third quarter and first three quarters of fiscal 2006, the company determined that the carrying value of its investments in two unrelated equity method investments were other-than-temporarily impaired and therefore recognized pre-tax impairment charges totaling \$9.1 million (for which no income tax benefit has been recognized) and \$52.3 million (\$49.6 million after tax), respectively. These charges are reflected in equity method investment earnings (loss) in the consolidated statements of earnings. The extent of the impairments was determined based upon the company's assessment of the recoverability of its investments based primarily upon the expected proceeds of planned dispositions of the investments.

The company holds subordinated notes in the original principal amount of \$150 million plus accrued interest of \$46.4 million from Swift Foods. During the company's fourth quarter of fiscal 2005, Swift Foods effected changes in its capital structure. As a result of those changes, the company determined that the fair value of the subordinated notes was impaired. From the date on which the company initially determined that the value of the notes were impaired through the second quarter of fiscal 2006, the company believed the impairment of this available-for-sale security to be temporary. As such, the company had reduced the carrying value of the note by \$35.4 million and recorded cumulative after-tax charges of \$21.9 million in accumulated other comprehensive income as of the end of the second quarter of fiscal 2006. During the third quarter of fiscal 2006, due to the company's consideration of current conditions related to the debtor's business and the company's intended holding period for this investment, the company has determined that the impairment is other than temporary. As such, the company has recognized an impairment charge of \$46.7 million in selling, general and administrative expenses and reversed the cumulative after-tax charges of \$21.9 million in accumulated other comprehensive income during the third quarter of fiscal 2006.

**9. Income Taxes**

In the third quarters of fiscal 2006 and 2005, the company's income tax expense was \$34.3 million and \$144.8 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately 27.0% and 35.6% for the third quarter and first three quarters of fiscal 2006, respectively, and 47.6% and 41.7% for the third quarter and first three quarters of fiscal 2005, respectively. The company's effective tax rate in the third quarter of fiscal 2006 was lower than the statutory rate due primarily to revised estimates of state income tax rates, partially offset by a \$9.1 million impairment of a foreign equity method investment during the quarter for which no tax benefit has been recognized. The company's effective tax rate in the third quarter of fiscal 2005 was higher than the company's statutory rate due primarily to a \$57 million impairment of a foreign equity method investment and an accrual of \$20 million related to the ongoing SEC investigation during the quarter for which no tax benefit was recognized. The company's effective tax rate was lower in the first three quarters of fiscal 2006 than in the comparable period of fiscal 2005 due to

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the impact of a lower effective state income tax rate in fiscal 2006 and the nondeductible nature of the accrual recognized in fiscal 2005 in connection with the SEC investigation.

**10. 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 30 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 30 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 \$105.9 million as of February 26, 2006, 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.

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 divested companies. Under these arrangements, the company is obligated to perform should the primary obligor be unable to perform. Most of these guarantees resulted from the company's fresh beef and pork divestiture. The terms of these arrangements do not exceed 9 years and the maximum amount of future payments the company has guaranteed is approximately \$49.8 million as of February 26, 2006. The company has guaranteed the performance of a 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 and related payments to be approximately \$46.5 million. The company recorded charges of \$25 million and \$21.5 million in fiscal 2004 and the third quarter of fiscal 2005, respectively, in connection with the

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expected settlement of these matters. There can be no assurance that the negotiations with the SEC Staff will ultimately be successful or that the SEC will accept the terms of any settlement that is negotiated with the SEC Staff. Accordingly, the terms of any settlement, if reached, could result in charges greater than the amount currently estimated and recognized in the company's financial statements.

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.

**11. 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.

Components of pension benefit and other postretirement benefit costs are:

	Pension Costs			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 26, 2006	February 27, 2005	February 26, 2006	February 27, 2005
Service cost	\$ 16.0	\$ 14.6	\$ 47.8	\$ 44.0
Interest cost	31.4	30.8	94.2	92.4
Expected return on plan assets	(32.4)	(32.8)	(97.2)	(98.4)
Amortization of prior service cost	0.6	0.6	2.0	1.8
Amortization of transition amount	—	—	—	(0.1)
Curtailement loss	—	—	2.4	—
Recognized net actuarial loss	4.9	2.5	14.2	7.6
<b>Benefit cost – company plans</b>	<b>20.5</b>	<b>15.7</b>	<b>63.4</b>	<b>47.3</b>
Pension benefit cost – multi-employer plans	1.8	1.8	6.0	6.1
<b>Total benefit cost</b>	<b>\$ 22.3</b>	<b>\$ 17.5</b>	<b>\$ 69.4</b>	<b>\$ 53.4</b>

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	Postretirement Costs			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 26, 2006	February 27, 2005	February 26, 2006	February 27, 2005
Service cost	\$ 0.6	\$ 0.6	\$ 1.8	\$ 2.4
Interest cost	5.3	6.4	16.0	20.8
Expected return on plan assets	(0.1)	—	(0.2)	(0.2)
Amortization of prior service cost	(3.2)	(3.1)	(9.7)	(5.2)
Recognized net actuarial loss	2.0	2.6	6.0	7.0
<b>Benefit cost – company plans</b>	<b>\$ 4.6</b>	<b>\$ 6.5</b>	<b>\$ 13.9</b>	<b>\$ 24.8</b>

During the third quarter and first three quarters of fiscal 2006, the company contributed \$2.7 million and \$28.8 million, respectively, to the company's pension plans and contributed \$12.2 million and \$38.3 million to the company's other postretirement plans. The company anticipates making further contributions of approximately \$5.7 million to its pension plans for the remainder of fiscal 2006. The company anticipates making further contributions of approximately \$6.7 million to its postretirement plans during the remainder of fiscal 2006. These estimates are based on current tax laws, plan asset performance and liability assumptions, which are subject to change.

**12. Business Segments**

The company's operations are organized into three reporting segments: Retail Products, Foodservice Products and Food Ingredients. The Retail Products reporting segment includes branded foods which are sold in various retail channels and include frozen, refrigerated and shelf-stable temperature classes. The Foodservice Products reporting segment includes branded and customized food products, including meals, entrees, prepared potatoes, meats, sauces and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments. The Food Ingredients reporting segment includes both 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, sourcing and merchandising operations.

In December 2005, the company announced certain organizational changes including realignment of portions of the business operations and changes in management hierarchy. The company is currently evaluating the impact of these changes on the future presentation of the company's reportable segments. The company expects its reportable segments will change in the fourth quarter of fiscal 2006.

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, gain on sale of Pilgrim's Pride Corporation common stock, net interest expense, equity method investment earnings (loss) and income taxes have been excluded from segment operations.

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Operating profit for the third quarter of fiscal 2006 at the Retail Products segment included charges of \$23 million related to the company's fiscal 2006-2008 restructuring plan. Operating profit for the first three quarters of fiscal 2006 included a \$6 million charge related to a plant closure. Operating profit for the third quarter and first three quarters of fiscal 2005 included a \$17 million benefit for favorable legal settlements partially offset by a \$10 million charge for an impairment of a brand and related assets.

Operating profit for the third quarter and first three quarters of fiscal 2006 at the Foodservice Products segment included charges of \$18 million related to the company's fiscal 2006-2008 restructuring plan. Operating profit for the third quarter and first three quarters of fiscal 2005 included a \$10 million loss from a fire at a manufacturing facility.

Operating profit for the third quarter and first three quarters of fiscal 2005 at the Food Ingredients segment includes a \$15 million charge for the impairment of a manufacturing facility.

General corporate expenses for the first three quarters of fiscal 2006 included approximately \$19 million of costs for the accelerated recognition of compensation in connection with the recent transition of certain executives. General corporate expenses for the third quarter of fiscal 2006 included a \$47 million charge related to the impairment of a note, a \$17 million charge related to patent-related litigation and \$10 million of pre-tax charges relating to the company's fiscal 2006-2008 restructuring plan.

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	<u>Thirteen weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Sales to unaffiliated customers		
Retail Products	\$ 1,661.3	\$ 1,607.3
Foodservice Products	561.1	541.4
Food Ingredients	656.5	607.6
Total	<u>\$ 2,878.9</u>	<u>\$ 2,756.3</u>
Intersegment sales		
Retail Products	\$ 0.3	\$ 0.3
Foodservice Products	9.1	10.6
Food Ingredients	47.7	55.0
	57.1	65.9
Intersegment elimination	(57.1)	(65.9)
Total	<u>\$ —</u>	<u>\$ —</u>
Net sales		
Retail Products	\$ 1,661.6	\$ 1,607.6
Foodservice Products	570.2	552.0
Food Ingredients	704.2	662.6
Intersegment elimination	(57.1)	(65.9)
Total	<u>\$ 2,878.9</u>	<u>\$ 2,756.3</u>
Operating profit		
Retail Products	\$ 248.1	\$ 271.6
Foodservice Products	41.1	57.0
Food Ingredients	70.8	59.9
Total operating profit	360.0	388.5
Gain on sale of Pilgrim's Pride Corporation common stock	—	185.7
General corporate expenses	170.6	137.9
Interest expense, net	61.8	68.1
Income tax expense	34.3	144.8
Equity method investment earnings (loss)	(0.6)	(64.0)
Income from continuing operations	<u>\$ 92.7</u>	<u>\$ 159.4</u>

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	<u>Thirty-nine weeks ended</u>	
	<u>February 26, 2006</u>	<u>February 27, 2005</u>
Sales to unaffiliated customers		
Retail Products	\$ 4,916.7	\$ 4,992.3
Foodservice Products	1,712.2	1,637.1
Food Ingredients	1,975.9	1,875.7
Total	<u>\$ 8,604.8</u>	<u>\$ 8,505.1</u>
<i>Intersegment sales</i>		
Retail Products	\$ 1.0	\$ 1.8
Foodservice Products	27.6	27.3
Food Ingredients	148.5	162.1
	<u>177.1</u>	<u>191.2</u>
Intersegment elimination	<u>(177.1)</u>	<u>(191.2)</u>
Total	<u>\$ —</u>	<u>\$ —</u>
Net sales		
Retail Products	\$ 4,917.7	\$ 4,994.1
Foodservice Products	1,739.8	1,664.4
Food Ingredients	2,124.4	2,037.8
Intersegment elimination	<u>(177.1)</u>	<u>(191.2)</u>
Total	<u>\$ 8,604.8</u>	<u>\$ 8,505.1</u>
Operating profit		
Retail Products	\$ 685.6	\$ 767.6
Foodservice Products	202.2	208.5
Food Ingredients	<u>200.3</u>	<u>199.1</u>
Total operating profit	1,088.1	1,175.2
Gain on sale of Pilgrim's Pride Corporation common stock	329.4	185.7
General corporate expenses	346.6	278.5
Interest expense, net	192.2	227.3
Income tax expense	302.1	341.8
Equity method investment earnings (loss)	<u>(31.2)</u>	<u>(34.8)</u>
Income from continuing operations	<u>\$ 545.4</u>	<u>\$ 478.5</u>

The company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 13% of consolidated net sales for the third quarter and first three quarters of fiscal 2006 and 12% and 11% of consolidated net sales for the third quarter and first three quarters of fiscal 2005, respectively, primarily in the Retail Products segment (percentages of net sales include net sales from discontinued operations).

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**13. Senior Long-term Debt**

Included in current installments of long-term debt is \$400 million of 7.125% senior debt due October 2026 due to the existence of a put option that is exercisable by the holders of the debt from August 1, 2006 to September 1, 2006. Based on current market conditions, the company does not expect the holders to exercise the put option, and therefore expects to reclassify the \$400 million balance to senior long-term debt in the second quarter of fiscal 2007, when the put option has expired.

In December 2005, ConAgra Foods elected to call for redemption the remaining \$496 million of its 6% Notes due September 15, 2006. The redemption was completed during the third quarter of fiscal 2006. The company incurred charges of approximately \$4 million, included in selling, general and administrative expenses, for the early termination of these notes.

In December 2005, the company entered into a \$1.5 billion 5-year revolving credit facility with a syndicate of financial institutions. This new credit facility replaces the company's \$1.05 billion revolving credit facility, which was terminated upon the closing of the new facility. The new facility contains provisions substantially identical to those in the facility it replaces. The terms of the new facility provide that the company may request that the commitments available under the facility be increased by up to an additional \$500 million and that the term of the facility be extended for additional one-year periods on an annual basis.

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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 for the fiscal year ended May 29, 2005. Results for the thirteen and thirty-nine week periods ended February 26, 2006 are not necessarily indicative of results that may be attained in the future.

**Fiscal 2006 Third 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, Banquet, Blue Bonnet, Chef Boyardee, Crunch 'n Munch, DAVID, 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, 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.

During the third quarter of fiscal 2006, the company:

- recognized a loss of \$0.06 per diluted share, which includes income from continuing operations of \$0.18 per diluted share and a loss of \$0.24 per diluted share from discontinued operations. Third quarter fiscal 2005 diluted earnings per share were \$0.32, which included earnings of \$0.01 per diluted share from discontinued operations,
- achieved a 4% increase in net sales and 1% increase in gross profit, largely due to improved sales volumes within the Retail Products segment,
- determined that it would sell substantially all of the assets of its packaged meats, cheese and seafood businesses in an effort to streamline the company's portfolio of brands and improve financial metrics, and recognized a pre-tax impairment charge of \$166 million (\$150 million after tax),

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initiated a restructuring plan designed to simplify its operating structure and reduce its manufacturing and selling, general and administrative costs.

***Focus on Marketing***

The company recently announced plans to increase its annual marketing spending by more than \$75 million, beginning in fiscal 2007, and to reallocate its marketing spending to focus on its highest potential brands.

***Divestiture Plans***

During the third quarter of fiscal 2006, the company determined that it would divest substantially all of its packaged meats, seafood and cheese operations, in order to streamline the company's portfolio of brands and facilities. The company completed the divestitures of its Seafood and Cook's Ham businesses in April 2006 and is actively marketing the remaining businesses. Aggregate annual revenue of the meat, cheese, seafood and Cook's Ham businesses to be divested is approximately \$2.8 billion.

***Restructuring***

In February 2006, the company announced a restructuring plan to simplify its operating structure and reduce its manufacturing and selling, general and administrative costs. Projects identified to date include moving its Grocery Foods headquarters from Irvine, California to Naperville, Illinois, further centralizing its shared services, and other cost-reduction initiatives. These projects are expected to be substantially complete by fiscal 2008 and do not impact the Food Ingredients reporting segment.

***Dividend Action***

The company reduced its quarterly dividend to \$0.18 per diluted share in order to provide additional financial flexibility to invest in its brands and to execute its organizational restructuring and cost reduction plans. The dividend continues to represent one of the highest yield and payout levels among consumer food companies, but is 9.25 cents per share, per quarter, lower than the company's prior dividend level.

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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 includes branded foods which are sold in various retail channels and include frozen, refrigerated and shelf-stable temperature classes. The Foodservice Products reporting segment includes branded and customized food products, including meals, entrees, prepared potatoes, sauces and a variety of custom-manufactured products packaged for sale to restaurants and other foodservice establishments. The Food Ingredients reporting segment includes both 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, sourcing and merchandising operations.

Net Sales

(\$ in millions)

Reporting Segment	Net Sales					
	Thirteen weeks ended			Thirty-nine weeks ended		
	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)
Retail Products	\$ 1,661	\$ 1,607	3%	\$ 4,917	\$ 4,992	(2)%
Foodservice Products	561	541	4%	1,712	1,637	5%
Food Ingredients	657	608	8%	1,976	1,876	5%
	<u>\$ 2,879</u>	<u>\$ 2,756</u>	4%	<u>\$ 8,605</u>	<u>\$ 8,505</u>	1%

Net sales for the third quarter of fiscal 2006 were \$2.9 billion, an increase of \$123 million, or 4%, from the same period in the prior fiscal year. Net sales for the first three quarters of fiscal 2006 were \$8.6 billion, an increase of \$100 million, or 1%, from the same period in the prior fiscal year. The increase in the third quarter of fiscal 2006 was driven primarily by increased sales volume in the Retail Products segment of 4%, increased selling prices for commodities, wheat flour and dehydrated vegetable products in the Food Ingredients segment, and strong sales of specialty potato products in the Foodservice Products segment. For the first three quarters of fiscal 2006, increased selling prices in the Food Ingredients segment and increased volumes and pricing of specialty potato products in the Foodservice Products segment were largely offset by lower volumes in the Retail Products segment in the first half of the year.

Retail Products net sales for the third quarter were \$1.7 billion, an increase of \$54 million, or 3%, compared to the same period in the prior year. Sales volumes increased by 4%, reflecting improved execution in the company's operations. The company's results in the third quarter of fiscal 2005 were negatively impacted by production problems and disruption from the implementation of information systems and business process improvement initiatives. Major brands which posted sales growth included Chef Boyardee, Egg Beaters, Healthy Choice, Hebrew National, Hunt's, Kid Cuisine, Marie Callender's, Orville Redenbacher, Peter Pan, Reddi-wip, Ro\*Tel, and Snack Pack. Major brands which posted declines in sales included ACT II, Banquet, LaChoy, Manwich, Pam, Swiss Miss, and Wesson.

Retail Products net sales in the first three quarters of fiscal 2006 were \$4.9 billion, a decrease of \$75 million, or 2%, from the same period in the prior fiscal year, driven by competitive challenges and weaker volumes and ineffective pricing execution in the first half of the year.

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Foodservice Products net sales were \$561 million in the third quarter of fiscal 2006 and \$541 million in the same period of the prior year. Net sales in the first three quarters of fiscal 2006 were \$1.7 billion, an increase of \$75 million, or 5%, as compared to prior year net sales. Results reflect improved sales volumes to key customers in specialty potato products, partially offset by a decline in sales of culinary products.

Food Ingredients net sales were \$657 million in the third quarter of fiscal 2006 and \$608 million in the same period of the prior year, reflecting higher commodity prices in the company's trading and merchandising operations and improved selling prices for wheat flour and dehydrated vegetable products in the company's specialty ingredients business. Net sales increased \$100 million to nearly \$2.0 billion in the first three quarters of fiscal 2006. Increased net sales reflect a favorable environment for trading and merchandising of commodities including petroleum products, natural gas, grain and fertilizer and improved sales volumes and pricing in the company's milling operations.

**Gross Profit**

(Net sales less cost of goods sold)

(\$ in millions)

Reporting Segment	Gross Profit					
	Thirteen weeks ended			Thirty-nine weeks ended		
	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)
Retail Products	\$ 495	\$ 490	1%	\$ 1,415	\$ 1,466	(3)%
Foodservice Products	109	112	(3)%	369	359	3%
Food Ingredients	111	108	2%	327	319	2%
	<u>\$ 715</u>	<u>\$ 710</u>	1%	<u>\$ 2,111</u>	<u>\$ 2,144</u>	(2)%

The company's gross profit for the third quarter of fiscal 2006 was \$715 million, an increase of 1% from the same period in the prior year. Gross profit for the first three quarters of fiscal 2006 decreased \$33 million from the first three quarters of fiscal 2005 to \$2.1 billion. Lower gross profits were significantly impacted by the lower sales volumes in the Retail Products segment in the first two quarters of fiscal 2006.

Retail Products gross profit for the third quarter of fiscal 2006 was \$495 million, an increase of \$5 million, or 1%, from the same period in the prior year. The increase in gross profit reflects a 4% increase in sales volumes, offset by less favorable mix and \$4 million of costs related to the company's restructuring plan. Gross profit for the first three quarters of fiscal 2006 was \$1.4 billion, a decrease of \$51 million from the same period in the prior fiscal year. The decrease in gross profit is largely due to lower sales volumes in the first two quarters of fiscal 2006, as well as less favorable product mix. Gross profit has been negatively impacted by increased costs of fuel and energy, transportation and warehousing, steel and other packaging materials. Gross profit was negatively impacted in the first three quarters of fiscal 2005 by \$5 million of charges related to the company's cost reduction efforts.

Foodservice Products gross profit was \$109 million for the third quarter of fiscal 2006, a decrease of \$3 million, or 3%, from the same period of the prior year. Gross profit was \$369 million in the first three quarters of fiscal 2006, an increase of \$10 million, or 3%, from same period of the prior year. In the third quarter and first three quarters of fiscal 2006, gross profit improved in the company's specialty potato operations, due to increased sales volumes to key customers. This was offset in the third quarter of fiscal

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2006 by decreased margins from the segment's shelf stable products. Costs of implementing the company's restructuring plan of \$1 million are included in gross profit for the third quarter and first three quarters of fiscal 2006.

Food Ingredients gross profit for the third quarter of fiscal 2006 increased \$3 million, or 2%, to \$111 million. Gross profit increased \$8 million, or 2%, to \$327 million for the first three quarters of fiscal 2006. The company's commodity trading and merchandising operations contributed \$70 million and \$188 million of gross profit in the third quarter and first three quarters of fiscal 2006, respectively and \$69 million and \$184 million in the comparable periods of the prior year.

Reporting Segment	Gross Margin Percent			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 26, 2006	February 27, 2005	February 26, 2006	February 27, 2005
Retail Products	30%	30%	29%	29%
Foodservice Products	19%	21%	22%	22%
Food Ingredients	17%	18%	17%	17%
Total	25%	26%	25%	25%

The company's gross margin (gross profit as a percentage of net sales) for the third quarter of fiscal 2006 and 2005 was 25% and 26%, respectively, primarily reflecting the impact of the lower margins realized in the Foodservice Products segment, due to increased manufacturing and supply chain costs, and in the Food Ingredients segment resulting from reduced margins in the specialty ingredients operations.

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

Selling, general and administrative expenses totaled \$525 million for the third quarter of fiscal 2006, an increase of \$66 million, or 14%, as compared to the same period in the prior year. Selling, general and administrative expenses totaled \$1.4 billion for the first three quarters of fiscal 2006, an increase of \$122 million, or 10%, as compared to the same period in the prior fiscal year. Results for the third quarter and the first three quarters of fiscal 2006 include \$45 million of charges relating to the company's restructuring plan. Results for the first three quarters of fiscal 2005 reflect charges of \$4 million in connection with the company's operational efficiency initiatives.

The company holds subordinated notes in the original principal amount of \$150 million plus accrued interest of \$46 million from Swift Foods. During the company's fourth quarter of fiscal 2005, Swift Foods effected changes in its capital structure. As a result of those changes, the company determined that the fair value of the subordinated notes was impaired. From the date on which the company initially determined that the value of the notes were impaired through the second quarter of fiscal 2006, the company believed the impairment of this available-for-sale security to be temporary. As such, the company had reduced the carrying value of the note by \$35 million and recorded cumulative after-tax charges of \$22 million in accumulated other comprehensive income as of the end of the second quarter of fiscal 2006. During the third quarter of fiscal 2006, due to the company's consideration of current conditions related to the debtor's business and the company's intended holding period for this investment, the company has determined that the impairment is other than temporary. As such, the company has recognized an impairment charge of \$47 million in selling, general and administrative expenses and reversed the cumulative after-tax charges of \$22 million in accumulated other comprehensive income during the third quarter of fiscal 2006.

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The company recognized a charge of \$17 million in the third quarter of fiscal 2006 in connection with patent-related litigation. The company also recognized \$4 million of costs for the early retirement of debt in the third quarter of fiscal 2006.

Results for the first three quarters of 2006 include \$19 million of costs for the accelerated recognition of compensation in connection with the recent transition of certain executives. The company has also incurred increased income tax-related and other professional fees and higher pension expense, partially offset by lower salaries and benefits due to recent headcount reductions.

Results for the third quarter and the first three quarters of fiscal 2005 reflect:

- a charge for the impairment of a facility of \$15 million in the Food Ingredients segment,
  - a charge of \$22 million on the early redemption of \$600 million of 7.5% senior debt,
  - an additional charge of \$21.5 million related to the previously reported SEC investigation,
  - a \$10 million charge to reflect an impairment of a brand within the Retail Products segment, and
  - a fire loss at a Foodservice Products plant of \$10 million,
- these additional expenses were partially offset by \$17 million of favorable legal settlements within the Retail Products segment in the third quarter of fiscal 2005.

Operating Profit (Earnings before general corporate expense, interest expense, net gain on the sale of Pilgrim's Pride Corporation common stock, income taxes and equity method investment earnings)

(\$ in millions)

Reporting Segment	Operating Profit					
	Thirteen weeks ended			Thirty-nine weeks ended		
	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)	February 26, 2006	February 27, 2005	Percentage Inc / (Dec)
Retail Products	\$ 248	\$ 272	(9)%	\$ 686	\$ 768	(11)%
Foodservice Products	41	57	(28)%	202	208	(3)%
Food Ingredients	71	60	18%	200	199	1%

Retail Products operating profit for the third quarter of fiscal 2006 was \$248 million, a decrease of \$24 million, or 9%, from the same period in the prior year. Operating profit for the first three quarters of fiscal 2006 was \$686 million, a decrease of \$82 million, or 11%, from the same period in the prior year. Lower operating profit in the first three quarters of fiscal 2006 is reflective of the factors cited in the Gross Profit discussion, above. Operating profit in the third quarter of fiscal 2006 includes charges of \$23 million in connection with the company's restructuring plan. Costs of \$10 million for the impairment of a brand and a benefit of \$17 million for favorable legal settlements are included in operating profit for the third quarter of fiscal 2005. Costs of \$6 million related to a closure of a production facility are included in operating profit for the first three quarters of fiscal 2006. Costs of \$6 million incurred in connection with the company's operational efficiency initiatives are included in operating profit for the first three quarters of fiscal 2005.

For the third quarter of fiscal 2006, Foodservice Products operating profit was \$41 million, compared with \$57 million for the third quarter of the prior fiscal year. Operating profit for the first three quarters of fiscal 2006 was \$202 million, a decrease of \$6 million, or 3%, from the same period in the prior year. Operating profit for the third quarter of fiscal 2006 includes charges of \$18 million in connection with the

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company's restructuring plan. The first three quarters of fiscal 2005 also include the impact of \$10 million of costs associated with a fire at a production facility and \$2 million of costs of implementing the company's operational efficiency initiatives.

Food Ingredients operating profit for the third quarter of fiscal 2006 was \$71 million, an increase of \$11 million, or 18%, from the same period in the prior year. Operating profit for the first three quarters of fiscal 2006 was \$200 million, essentially unchanged from the same period in the prior year. Operating profit for the third quarter of fiscal 2005 includes a \$15 million charge for the impairment of a manufacturing facility. The commodity trading and merchandising operations contributed \$49 million of the segment's total operating profit in the third quarter of fiscal 2006, compared with \$51 million in the comparable period of the prior year. Specialty ingredients operations were slightly less profitable in the third quarter of fiscal 2006 than in the third quarter of fiscal 2005.

Interest Expense, Net

Net interest expense was \$62 million and \$68 million in the third quarters of fiscal 2006 and 2005, respectively. Net interest expense was \$192 million and \$227 million for the first three quarters of fiscal 2006 and 2005, respectively. Net interest expense was lower as a result of reduced debt balances and increased short-term investment balances.

During 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 most 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 \$3 million and \$10 million due to these interest rate swap agreements in the third quarter and first three quarters of fiscal 2006, respectively, and was reduced by \$12 million and \$23 million in the third quarter and first three quarters of fiscal 2005, respectively.

During the second quarter of fiscal 2005, the company recognized approximately \$14 million of additional interest expense associated with one of the previously terminated interest rate swaps. 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 determined it was no longer probable such debt would be issued and immediately recognized the entire deferred amount within interest expense.

Gain on Sale of Pilgrim's Pride Corporation Common Stock

During the third quarter of fiscal 2005, the company sold ten million shares of the Pilgrim's Pride Corporation common stock for \$282.5 million, resulting in a pre-tax gain of approximately \$186 million. During the first quarter of fiscal 2006, the company sold its remaining 15.4 million shares of Pilgrim's Pride Corporation common stock for \$482 million, resulting in a pre-tax gain of \$329 million.

Income Taxes

**In the third quarters of fiscal 2006 and 2005, the company's income tax expense was \$34.3 million and \$144.8 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately**

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27.0% and 35.6% for the third quarter and first three quarters of fiscal 2006, respectively, and 47.6% and 41.7% for the third quarter and first three quarters of fiscal 2005, respectively. The company's effective tax rate in the third quarter of fiscal 2006 was lower than the statutory rate due primarily to revised estimates of state income tax rates, partially offset by a \$9.1 million impairment of a foreign equity method investment during the quarter for which no tax benefit has been recognized. The company's effective tax rate in the third quarter of fiscal 2005 was higher than the company's statutory rate due primarily to a \$57 million impairment of a foreign equity method investment and an accrual of \$20 million related to the ongoing SEC investigation during the quarter for which no tax benefit was recognized. The company's effective tax rate was lower in the first three quarters of fiscal 2006 than in the comparable period of fiscal 2005 due to the impact of a lower effective state income tax rate in fiscal 2006 and the nondeductible nature of the accrual recognized in fiscal 2005 in connection with the SEC investigation.

Equity Method Investment Earnings (Loss)

Equity method investment losses for the third quarter and first three quarters of fiscal 2006 were \$1 million and \$31 million, respectively. Equity method investment losses were \$64 million and \$35 million in the third quarter and first three quarters of fiscal 2005, respectively. Equity method investment losses for the first three quarters of fiscal 2005 include \$7 million of earnings from the company's equity interest in Swift Foods, an investment which was divested in the second quarter of fiscal 2005.

During the third quarter of fiscal 2005, the company determined that the carrying value of its investments in two unrelated equity method investments were other than temporarily impaired and therefore recognized pre-tax impairment charges totaling \$71.0 million (\$65.5 million after tax). These charges are reflected in equity method investment earnings (loss) in the statement of earnings. The extent of the impairments was determined based upon the company's assessment of the recoverability of its investments based primarily upon the expected proceeds from the planned disposition of one of the investments and an assessment of the other investee's ability to sustain earnings which would justify the carrying amount of that investment.

During the third quarter and first three quarters of fiscal 2006, the company recognized additional impairment charges of \$9 million and \$48 million, respectively, due to further declines in the estimated proceeds from the disposal of one of its equity method investments. No tax benefit has been recognized for these impairment charges, as the tax benefit related to any tax deductibility of losses incurred from the eventual disposal of this joint venture is uncertain. The company also incurred losses totaling \$6 million on the dispositions of two other, unrelated, equity method investments in the first three quarters of fiscal 2006.

Discontinued Operations

The third quarter and first three quarters of the current year include after tax losses of \$124 million and \$62 million, respectively, from discontinued operations as compared to income of \$6 million and \$61 million, respectively, in the same periods of the prior year.

During the third quarter of fiscal 2006, the company recognized pre-tax impairment charges totaling \$166 million (\$150 million after-tax), based on the company's estimates of sales proceeds for the pending divestitures of its packaged meats, cheese and seafood operations. The estimate of proceeds was based upon a comprehensive analysis which included probability-weighted assessments of key variables which will affect the ultimate proceeds realized. The key variables considered included the nature of potential buyers, estimated future cash flows from the operations, and the valuation multiple that potential buyers may assign to the cash flows. While the company believes its current estimate of proceeds is based on the

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

best available information, future events, including, but not limited to, negotiations with potential buyers and future performance of the business, could significantly affect the amount of proceeds ultimately received. Accordingly, the changes in the amount of proceeds could result in impairment charges greater or less than the amount currently estimated and recognized in the company's financial statements.

In addition to the impairment charge, operating the packaged meats, cheese and seafood businesses resulted in after-tax earnings of \$26 million and \$83 million in the third quarter and first three quarters of fiscal 2006, respectively. These businesses earned \$23 million and \$82 million in the third quarter and first three quarters of fiscal 2005, respectively.

Earnings from discontinued operations from businesses which the company no longer owns were \$5 million in the first three quarters of fiscal 2006. These businesses incurred losses of \$17 million and \$21 million in the third quarter and first three quarters of fiscal 2005, respectively.

**Earnings Per Share**

The company incurred losses of \$(0.06) per diluted share and earned \$0.93 per diluted share in the third quarter and first three quarters of fiscal 2006, respectively, including losses from discontinued operations of \$(0.24) and \$(0.12) per diluted share in the third quarter and first three quarters of fiscal 2006, respectively. Earnings per diluted share were \$0.32 and \$1.04 for the third quarter and first three quarters of fiscal 2005, respectively, including earnings of \$0.01 and \$0.12 per diluted share for discontinued operations.

**Liquidity and Capital Resources**

**Sources of Liquidity and Capital**

The company's primary financing objective is to maintain a prudent capital structure while providing the flexibility to pursue its growth objectives. The company currently uses short-term debt principally to finance ongoing operations, including 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. In December 2005, the company entered into a \$1.5 billion 5-year revolving credit facility with a syndicate of financial institutions. This new credit facility replaces the company's \$1.05 billion revolving credit facility, which was terminated upon entering into the new facility. The new facility contains provisions substantially identical to those in the facility it replaces. The terms of the new facility provide that the company may request that the commitments available under the facility be increased by up to an additional \$500 million and that the term of the facility be extended for additional one-year periods on an annual basis. The company is in compliance with the credit agreements' financial covenants. Management believes the company will maintain its current commercial paper 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 could use its bank revolving credit facility to provide liquidity.

The company's \$1.5 billion revolving credit facility is with major domestic and international banks. The interest rate for the revolving credit facilities are generally .30 to .35 percentage points higher than the interest rates for commercial paper.

**ConAgra Foods, Inc. and Subsidiaries**  
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The company's overall level of interest-bearing debt as of the end of the third quarter of fiscal year 2006 totaled \$3.8 billion, compared to \$4.5 billion as of the end of the third quarter of fiscal 2005. In third quarter of fiscal 2006, the company called for redemption the remaining \$496 million of its 6% Notes due September 15, 2006. As of the end of the third quarter of fiscal 2006, the company's senior long-term debt ratings were all investment grade ratings.

The company continues to evaluate opportunities to sell its \$150 million subordinated notes receivable plus accrued interest of \$46 million from the fresh beef and pork divestiture (which are reflected at a combined current fair value of approximately \$150 million in the company's balance sheet at February 26, 2006).

The company reduced its quarterly dividend to \$0.18 per diluted share in order to provide additional financial flexibility to invest in its brands and to execute its organizational restructuring and costs reduction plans.

In April 2006, subsequent to the third quarter of fiscal 2006, the company received pre-tax proceeds of approximately \$440 million for the sale of its Cook's Ham and Seafood businesses.

Cash Flows

During the first three quarters of fiscal 2006, the company generated \$30 million of cash, which was the net impact of \$723 million generated by operating activities, \$355 million generated by investing activities, and \$1.05 billion used in financing activities.

Cash generated from operating activities of continuing operations totaled \$545 million in the first three quarters of fiscal 2006, as compared to \$582 million generated in the same period of the prior year. The decreased cash flow was largely the result of lower operating earnings in the first three quarters of fiscal 2006 than in the comparable period of fiscal 2005. The timing of income tax payments also resulted in decreased operating cash flows in the first three quarters of fiscal 2006. These factors were partially offset by the impact of disruptions, due to the implementation of new information systems, and the impact on the company's billing and collections processes, which reduced cash inflows in the third quarter of fiscal 2005. Also, changes in balances of customer prepayments for products in the company's Food Ingredients segment resulted in increased cash flows in the first three quarters of fiscal 2006, as compared to the first three quarters of fiscal 2005. Cash generated from operating activities of discontinued operations was approximately \$178 million in the first three quarters of fiscal 2006, as compared to \$27 million in the first three quarters of fiscal 2005. The more significant cash flows from discontinued operations in fiscal 2006 are primarily due to the improved operating results and management of working capital within the discontinued packaged meats and cheese businesses during that period, partially offset by cash inflows from the liquidation of cattle inventory in connection with the discontinued cattle feeding operations in fiscal 2005. Cash flow from operating activities is one of the company's primary sources of liquidity.

Cash provided by investing activities of continuing operations totaled \$356 million in the first three quarters of fiscal 2006, versus cash provided by investing activities of continuing operations of \$238 million in the same period of fiscal 2005. Investing activities for the first three quarters of fiscal 2006 consisted primarily of proceeds of \$482 million from the sale of 15.4 million shares of Pilgrim's Pride Corporation common stock, offset by capital expenditures of \$177 million. Investing activities for the first three quarters of fiscal 2005 consisted primarily of proceeds of \$283 million from the sale of 10 million shares of Pilgrim's Pride Corporation common stock and \$194 million for the sale of the company's remaining interest in Swift Foods, partially offset by capital additions of \$292 million. Cash provided by investing activities of discontinued operations in the first three quarters of fiscal 2005 was \$184 million, primarily generated from the dispositions of the cattle feeding operations and the specialty meats operations. Cash

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used in investing activities of discontinued operations in the first three quarters of fiscal 2006 was insignificant.

Cash used in financing activities totaled \$1.05 billion in the first three quarters of fiscal 2006, and \$1.6 billion in the first three quarters of fiscal 2005. During the first three quarters of fiscal 2006 and 2005, the company paid dividends of \$424 million and \$409 million, respectively. The company repaid \$642 million and nearly \$1.2 billion of long-term debt in the first three quarters of fiscal 2006 and 2005, respectively. Additionally, in the first three quarters of fiscal 2005, the company repurchased \$181 million of its common stock as part of its share repurchase program.

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, amortizing debt payments and payment of 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.

As a result of adopting FIN 46R, the company has consolidated the assets and liabilities of several entities from which it leases property, plant and equipment. Due to the adoption of FIN 46R, the company reflects in its balance sheet as of February 26, 2006: property, plant and equipment of \$185 million, long-term debt of \$193 million (including current maturities of \$8 million), other assets of \$12 million, and other noncurrent liabilities of \$6 million. 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 \$3.9 billion, are currently recognized as liabilities in the company's consolidated balance sheet. Operating lease obligations and unconditional purchase obligations, which total \$0.9 billion, are not recognized as liabilities in the company's consolidated balance sheet in accordance with generally accepted accounting principles.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

A summary of the company's contractual obligations as of February 26, 2006 is as follows (including obligations of discontinued operations):

(in millions) Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 3,881.2	\$ 420.1	\$ 40.7	\$ 801.0	\$ 2,619.4
Lease obligations	688.7	100.8	187.9	117.3	282.7
Purchase obligations	241.7	56.6	119.9	40.1	25.1
<b>Total</b>	<b>\$ 4,811.6</b>	<b>\$ 577.5</b>	<b>\$ 348.5</b>	<b>\$ 958.4</b>	<b>\$ 2,927.2</b>

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 February 26, 2006 was approximately 7.53%. 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 the divested fresh beef and pork operations, as of February 26, 2006, is as follows:

(in millions) Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Guarantees	\$ 49.8	\$ 7.9	\$ 20.0	\$ 7.8	\$ 14.1
Other commitments	0.8	0.7	0.1	—	—
<b>Total</b>	<b>\$ 50.6</b>	<b>\$ 8.6</b>	<b>\$ 20.1</b>	<b>\$ 7.8</b>	<b>\$ 14.1</b>

The company's total commitments of \$51 million include approximately \$34 million in guarantees and other commitments the company has made on behalf of the divested fresh beef and pork business.

The company has guaranteed the performance of the divested fresh beef and pork business with respect to a 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").

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The following table represents the fair value and scheduled maturity dates of such contracts outstanding as of February 26, 2006:

<u>Source of Fair Value</u>	<u>Fair Value of Contracts as of February 26, 2006 net asset / (liability)</u>		
	<u>Maturity less than 1 year</u>	<u>Maturity 1-3 years</u>	<u>Total Fair Value</u>
Prices actively quoted	\$ 31.0	\$ 18.3	\$ 49.3
Prices provided by other external sources	17.3	0.6	17.9
Prices based on other valuation models	—	—	—
Total fair value	<u>\$ 48.3</u>	<u>\$ 18.9</u>	<u>\$ 67.2</u>

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.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

**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 2005 annual report on Form 10-K. There have been no significant changes with respect to these policies during the first half of fiscal 2006.

**Recently Issued Accounting Pronouncements**

In December 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). Accordingly, the adoption of SFAS No. 123R will have an impact on the company's results of operations, although it will have no impact on the company's overall financial position. SFAS No. 123R is effective beginning in the company's first quarter of fiscal 2007. Management is currently evaluating the impact that the adoption of this statement will have on the company's consolidated results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, *Inventory Pricing*, for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), requiring that those items be recognized as current-period expenses. This statement also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The statement is effective for inventory costs incurred beginning in the company's fiscal 2007. Management does not expect this statement to have a material impact on the company's consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143* ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation", as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The statement must be applied by the end of fiscal 2006. Management does not expect this statement to have a material impact on the company's consolidated financial position or results of operations.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

**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 2005 annual report on Form 10-K.

**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 thirty-nine weeks ended February 26, 2006. For additional information, refer to the subsection "Quantitative and Qualitative Disclosures About Market Risk" in the "Management's Discussion & Analysis" in Item 7A of the fiscal 2005 annual report on Form 10-K.

**Commodity Market Risk**

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 with its established policies.

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.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

Based on the company's net derivative positions at the end of the first, second and third quarters of fiscal 2006, the maximum potential loss of fair value resulting from a hypothetical change of 10% in market prices was as follows:

<u>(in millions)</u>	
<u>Processing</u>	
Grains/Foods	\$ 12
Meats	1
Energy	43
<u>Trading</u>	
Grains/Foods	\$ 31
Meats	6
Energy	17

**Foreign Currency Risk**

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

One measure of market risk exposure can be determined using sensitivity analysis. Sensitivity analysis is the measurement of potential loss of fair value resulting from a hypothetical change of 10% in exchange rates. Actual changes in exchange rates may differ from hypothetical changes. This sensitivity analysis excludes the underlying foreign denominated transactions that are being hedged which have a high inverse correlation to price changes of the derivative commodity instrument.

Based on the company's processing-related net foreign currency derivative positions at the end of the first, second and third quarter of fiscal 2006, the maximum potential loss of fair value resulting from a hypothetical change of 10% in market prices was \$18 million. Based on the company's trading-related net foreign currency derivative positions at the end of the first, second and third quarter of fiscal 2006, the maximum potential loss of fair value resulting from a hypothetical change of 10% in market prices was \$9 million.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act as of February 26, 2006. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer have concluded that, because of the material weakness in internal control discussed below, the company's disclosure controls and procedures were not effective as of February 26, 2006.

During fiscal 2005, the company systematically conducted reviews of financial controls as part of its Sarbanes-Oxley 404 certification process and in connection with pending tax audits, as well as part of operational improvement efforts by new financial management. During the third and fourth quarters, those reviews resulted in the discovery of errors related to accounting for income taxes in previously reported amounts. To correct the errors discovered as a part of that process, and as announced in its Form 8-K filed with the SEC on March 24, 2005, the company restated financial statements for the periods covered in its Form 10-K for the fiscal year ended May 30, 2004 and the Forms 10-Q for the first two quarters of fiscal 2005. In connection with those restatements, the company concluded that a material weakness in internal control over accounting for income taxes existed as of February 27, 2005, and was not remediated as of May 29, 2005. 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.

In connection with the company's overall assessment of its internal control over financial reporting, the company has evaluated the effectiveness of its internal control over accounting for income taxes as of February 26, 2006, and has concluded that the material weakness in internal controls with respect to accounting for income taxes was not fully remediated as of February 26, 2006. Management's conclusion that the material weakness in accounting for income taxes was not fully remediated as of February 26, 2006 was based on the following factors: (1) while significant process and control enhancements have been implemented, management is still finalizing the implementation of its remediation plan, and (2) comprehensive testing of the internal controls over accounting for income taxes is in process and is expected to be completed during the preparation of the company's fiscal 2006 consolidated financial statements.

**Changes in Internal Control over Financial Reporting and Remediation Plans**

The company has implemented significant remediation steps in connection with the previously reported material weakness in internal controls with respect to accounting for income taxes, including reorganization of the tax department, hiring of a new Vice President of Tax and other tax and tax accounting professionals, design of enhanced control processes over accounting for income taxes, implementation of certain enhanced control processes over accounting for income taxes, including general ledger account reconciliation processes, implementation of dual review procedures, and engagement of third party tax specialists to provide additional quality assurance.

As a consequence of the income tax weakness noted above, the company applied other procedures, principally manual checks and additional reviews, designed to improve the reliability of its accounting for income taxes. The company will continue implementing its remediation plan and will monitor the improvements in the controls over accounting for income taxes to ensure remediation of the material weakness.

**ConAgra Foods, Inc. and Subsidiaries**  
**Part I – Financial Information**

These remediation efforts have changed and improved the company's internal control over financial reporting in the first three quarters of fiscal 2006 in a manner that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. As stated above, the company is in the process of finalizing the implementation of its remediation plan and testing the enhanced internal controls over accounting for income taxes to verify their effectiveness. The process is expected to be completed during the preparation of the company's fiscal 2006 consolidated financial statements.

Aside from changes related to the material weakness described above, there have been no changes during the company's fiscal quarter ended February 26, 2006 in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

ConAgra Foods, Inc. and Subsidiaries  
Part II – Other Information

**Item 1. Legal Proceedings**

The company has reported certain information regarding legal proceedings in its Form 10-K for the fiscal year ended May 29, 2005 and Form 10-Q for the quarter ended August 28, 2005.

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

The following table presents the total number of shares purchased during the third quarter of fiscal 2006, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</u>	<u>Approximate Dollar Value of Shares that may yet be Purchased under the Program (2)</u>
November 28 through December 25, 2005	2,052	\$ 21.40	—	\$ 399,900,000
December 26, 2005 through January 22, 2006	11,248	\$ 20.52	—	\$ 399,900,000
January 23 through February 26, 2006	<u>1,923</u>	\$ 20.47	<u>—</u>	\$ 399,900,000
Total Fiscal 2006 Third Quarter Activity	<u>15,223</u>	\$ 20.63	<u>—</u>	\$ 399,900,000

(1) Amounts represent 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. The company has repurchased 22.1 million shares at a cost of \$600 million through February 26, 2006. This program has no expiration date.

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Part II – Other Information

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

ConAgra Foods, Inc. and Subsidiaries  
Part II – Other Information

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 7<sup>th</sup> day of April, 2006.

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Exhibit Index

<u>EXHIBIT</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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31.1	Section 302 Certificate of Chief Executive Officer	50
31.2	Section 302 Certificate of Chief Financial Officer	51
32.1	Section 906 Certificates	52

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ConAgra Foods, Inc. and Subsidiaries  
Computation of Ratio of Earnings to Fixed Charges  
(in millions)

	Thirty-nine weeks ended February 26, 2006
Earnings:	
Income from continuing operations before income taxes and equity method investment earnings	\$ 878.7
Add/(deduct):	
Fixed charges	280.3
Distributed income of equity method investees	19.9
Capitalized interest	(3.8)
Earnings available for fixed charges (a)	<u>\$ 1,175.1</u>
Fixed charges:	
Interest expense	\$ 215.9
Capitalized interest	3.8
Interest in cost of goods sold	18.1
One third of rental expense (1)	42.5
Total fixed charges (b)	<u>\$ 280.3</u>
Ratio of earnings to fixed charges (a/b)	4.2

(1) Considered to be representative of interest factor in rental expense.

## CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Gary M. Rodkin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended February 26, 2006 of ConAgra Foods, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 7, 2006

/s/ Gary M. Rodkin  
Gary M. Rodkin  
Chief Executive Officer

## CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Frank S. Sklarsky, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended February 26, 2006 of ConAgra Foods, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 7, 2006

/s/ Frank S. Sklarsky

Frank S. Sklarsky

Executive Vice President, Chief Financial Officer

## CERTIFICATION

**Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Gary M. Rodkin, Chief Executive Officer of ConAgra Foods, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that ConAgra Foods, Inc.'s Quarterly Report on Form 10-Q for the quarter ended February 26, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of ConAgra Foods, Inc.

April 7, 2006

/s/ Gary M. Rodkin  
Gary M. Rodkin  
Chief Executive Officer

I, Frank S. Sklarsky, Executive Vice President, Chief Financial Officer of ConAgra Foods, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that ConAgra Foods, Inc.'s Quarterly Report on Form 10-Q for the quarter ended February 26, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of ConAgra Foods, Inc.

April 7, 2006

/s/ Frank S. Sklarsky  
Frank S. Sklarsky  
Executive Vice President, Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to ConAgra Foods, Inc. and will be retained by ConAgra Foods, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



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LOWENSTEIN SANDLER PC

Attorneys at Law

65 Livingston Avenue

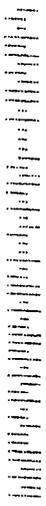


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*SES*

Ms. Kristin Courcier  
OES Financial Assurance Coordinator  
USEPA  
Mail Code SES  
One Congress St., Ste. 1100  
Boston, MA 02114-2023



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