

CONAGRA FOODS INC /DE/
Form 10-Q
January 05, 2007

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 November 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		47-0248710
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
One ConAgra Drive, Omaha, Nebraska		68102-5001
(Address of Principal Executive Offices)		(Zip Code)

(402) 595-4000

(Registrant's telephone number, including area code)

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

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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 December 22, 2006, was 505,165,952.

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

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 26, 2006	November 27, 2005	November 26, 2006	November 27, 2005
Net sales	\$ 3,088.7	\$ 3,002.0	\$ 5,777.3	\$ 5,675.8
Costs and expenses:				
Cost of goods sold	2,278.4	2,270.6	4,304.0	4,273.7
Selling, general and administrative expenses	450.4	450.4	887.6	867.4
Interest expense, net	52.1	68.6	110.1	141.0
Gain on sale of Pilgrim's Pride Corporation common stock				329.4
Income from continuing operations before income taxes and equity method investment earnings (loss)	307.8	212.4	475.6	723.1
Income tax expense	119.1	79.5	180.6	257.1
Equity method investment earnings (loss)	12.6	(16.7)	14.8	(30.6)
Income from continuing operations	201.3	116.2	309.8	435.4
Income from discontinued operations, net of tax	12.0	36.3	70.2	64.4
Net income	\$ 213.3	\$ 152.5	\$ 380.0	\$ 499.8
Earnings per share - basic				
Income from continuing operations	\$ 0.40	\$ 0.22	\$ 0.61	\$ 0.84
Income from discontinued operations	0.02	0.07	0.14	0.12
Net income	\$ 0.42	\$ 0.29	\$ 0.75	\$ 0.96
Earnings per share - diluted				
Income from continuing operations	\$ 0.39	\$ 0.22	\$ 0.61	\$ 0.84
Income from discontinued operations	0.03	0.07	0.13	0.12
Net income	\$ 0.42	\$ 0.29	\$ 0.74	\$ 0.96

See notes to the condensed consolidated financial statements.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 26, 2006	November 27, 2005	November 26, 2006	November 27, 2005
Net income	\$ 213.3	\$ 152.5	\$ 380.0	\$ 499.8
Other comprehensive income (loss):				
Net derivative adjustment, net of tax	(4.7)	1.1	(1.3)	29.8
Unrealized gain (loss) on available-for-sale securities, net of tax:				
Unrealized holding gains (losses) arising during the period	1.7	3.2	2.1	(16.6)
Less: reclassification adjustment for gains included in net income	(0.8)		(2.3)	(95.3)
Currency translation adjustment:				
Unrealized holding gains (losses) arising during the period	(8.4)	9.2	(6.4)	9.1
Less: reclassification adjustment for losses included in net income	21.7		21.7	
Minimum pension liability, net of tax	3.1		4.1	
Comprehensive income	\$ 225.9	\$ 166.0	\$ 397.9	\$ 426.8

See notes to the condensed consolidated financial statements.

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

	November 26, 2006	May 28, 2006	November 27, 2005
ASSETS			
Current assets			
Cash and cash equivalents	\$ 803.5	\$ 331.6	\$ 687.4
Receivables, less allowance for doubtful accounts of \$25.0, \$27.8 and \$31.2	1,115.5	1,178.1	1,301.4
Inventories	2,587.7	2,130.6	2,449.4
Prepaid expenses and other current assets	1,213.3	889.0	558.9
Current assets held for sale		261.0	460.2
Total current assets	5,720.0	4,790.3	5,457.3
Property, plant and equipment			
Property, plant and equipment	4,814.1	4,829.5	4,802.5
Less accumulated depreciation	(2,659.4)	(2,561.1)	(2,468.6)
Property, plant and equipment, net	2,154.7	2,268.4	2,333.9
Goodwill			
Goodwill	3,442.4	3,445.6	3,446.1
Brands, trademarks and other intangibles, net	796.5	799.5	800.1
Other assets	242.9	233.5	428.4
Noncurrent assets held for sale		433.1	839.1
	\$ 12,356.5	\$ 11,970.4	\$ 13,304.9
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Notes payable	\$ 5.6	\$ 10.0	\$ 10.7
Current installments of long-term debt	20.8	421.1	920.4
Accounts payable	992.7	867.6	976.8
Advances on sales	149.4	103.2	211.4
Accrued payroll	291.7	310.8	227.1
Other accrued liabilities	1,497.0	1,247.5	1,296.1
Current liabilities held for sale		4.6	66.7
Total current liabilities	2,957.2	2,964.8	3,709.2
Senior long-term debt, excluding current installments			
Senior long-term debt, excluding current installments	3,131.7	2,754.8	3,036.8
Subordinated debt			
Subordinated debt	400.0	400.0	400.0
Other noncurrent liabilities			
Other noncurrent liabilities	1,130.0	1,197.6	1,127.8
Noncurrent liabilities held for sale			
Noncurrent liabilities held for sale		3.2	5.0
Total liabilities	7,618.9	7,320.4	8,278.8
Commitments and contingencies (Note 11)			
Common stockholders equity			
Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 566,256,801, 566,214,311 and 566,186,464			
Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 566,256,801, 566,214,311 and 566,186,464	2,831.3	2,831.1	2,830.9
Additional paid-in capital	788.6	764.0	757.4
Retained earnings	2,650.7	2,454.6	2,655.3
Accumulated other comprehensive income (loss)	(4.0)	(21.8)	(29.0)
Less treasury stock, at cost, 61,570,244, 55,352,988 and 46,947,140 common shares	(1,529.0)	(1,375.7)	(1,185.6)
	4,737.6	4,652.2	5,029.0
Less unearned restricted stock			
		(2.2)	(2.9)
Total common stockholders equity	4,737.6	4,650.0	5,026.1
	\$ 12,356.5	\$ 11,970.4	\$ 13,304.9

See notes to the condensed consolidated financial statements.

ConAgra Foods, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(dollars in millions except share data)
(unaudited)

	Twenty-six weeks ended	
	November 26, 2006	November 27, 2005
Cash flows from operating activities:		
Net income	\$ 380.0	\$ 499.8
Income from discontinued operations	70.2	64.4
Income from continuing operations	309.8	435.4
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	176.8	148.8
Gain on sale of Pilgrim's Pride Corporation common stock, pretax (see Note 2)		(329.4)
Gain (loss) on sale of fixed assets	(2.3)	1.9
Gain (loss) on sale of businesses and equity method investments	(22.1)	0.7
Undistributed earnings of affiliates	(8.1)	(6.9)
Non-cash impairments of investments		45.2
Other items (includes pension and other postretirement benefits)	(29.4)	10.1
Change in operating assets and liabilities:		
Accounts receivable	(49.1)	(36.6)
Inventory	(462.7)	(315.6)
Prepaid expenses and other current assets	(467.4)	113.0
Accounts payable and advances on sales	230.0	288.4
Other accrued liabilities	267.3	(5.7)
Net cash flows from operating activities continuing operations	(57.2)	349.3
Net cash flows from operating activities discontinued operations	78.1	116.3
Net cash flows from operating activities	20.9	465.6
Cash flows from investing activities:		
Purchases of marketable securities	(1,074.6)	
Sales of marketable securities	1,075.4	
Additions to property, plant and equipment	(137.0)	(120.4)
Sale of Swift note receivable	117.4	
Sale of Pilgrim's Pride Corporation common stock		482.4
Sale of property, plant and equipment	101.9	3.9
Sale of businesses and equity method investments	72.3	30.5
Notes receivable and other items	0.6	(3.2)
Net cash flows from investing activities continuing operations	156.0	393.2
Net cash flows from investing activities discontinued operations	664.5	0.5
Net cash flows from investing activities	820.5	393.7
Cash flows from financing activities:		
Net short-term borrowings	(4.4)	2.2
Repayment of long-term debt	(25.0)	(113.3)
Repurchase of ConAgra Foods common shares	(202.9)	
Cash dividends paid	(185.2)	(282.3)
Proceeds from exercise of employee stock options	45.3	14.2
Other items	2.7	(0.3)
Net cash flows from financing activities continuing operations	(369.5)	(379.5)
Net cash flows from financing activities discontinued operations		
Net cash flows from financing activities	(369.5)	(379.5)
Net change in cash and cash equivalents	471.9	479.8
Cash and cash equivalents at beginning of period	331.6	207.6
Cash and cash equivalents at end of period	\$ 803.5	\$ 687.4

See notes to the condensed consolidated financial statements.

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ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-Six Weeks ended November 26, 2006 and November 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 2006 annual report on Form 10-K, as updated via the Company's Form 8-K as filed on November 20, 2006.

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 Affiliates 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 affiliates for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary might include the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. Management's assessment as to whether any decline in value is other than temporary is based on 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.

Cash and Cash Equivalents Cash and all highly liquid investments with a maturity of three months or less at the date of acquisition, including short-term time deposits, government agency and corporate obligations, are classified as cash and cash equivalents. Cash deposits in margin accounts of \$232 million are included in prepaid and other current assets in the Company's consolidated balance sheet at November 26, 2006.

Share-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 issues stock under various stock-based compensation arrangements, including restricted stock, performance shares and other share-based awards and stock

ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-Six Weeks ended November 26, 2006 and November 27, 2005

(columnar dollars in millions except per share amounts)

issued in lieu of cash bonuses. In addition, the Company grants restricted share equivalents pursuant to plans approved by stockholders which are ultimately settled in cash based on the market price of the Company's stock as of the date the award is fully vested.

During the first quarter of fiscal 2007, the Company adopted the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 123 revised 2004, *Share-Based Payment* (SFAS No. 123R), which replaced SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. The Company elected the modified-prospective transition method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new grants and to grants that were outstanding prior to the effective date and are subsequently modified. Estimated future compensation expense for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS No. 123 pro forma disclosures. See Note 5 for further information regarding the Company's stock-based compensation assumptions and expenses, including pro forma disclosures for prior periods as if the Company had followed the fair value recognition provisions of SFAS No. 123 for all outstanding and unvested stock options.

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.

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

Thirteen weeks ended

Twenty-six weeks ended