

CONAGRA FOODS INC /DE/
Form 10-Q
December 29, 2014

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 23, 2014

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 its charter)

Delaware 47-0248710
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One ConAgra Drive, 68102-5001
Omaha, Nebraska
(Address of principal executive offices) (Zip Code)
(402) 240-4000

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares outstanding of issuer's common stock, as of November 23, 2014, was 425,916,952.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ConAgra Foods, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23,	November 24,	November 23,	November 24,
	2014	2013	2014	2013
Net sales	\$4,150.0	\$ 4,221.1	\$7,851.0	\$ 7,936.9
Costs and expenses:				
Cost of goods sold	3,261.5	3,261.3	6,258.7	6,185.0
Selling, general and administrative expenses	732.6	553.1	1,224.6	1,091.2
Interest expense, net	79.3	95.5	163.0	191.3
Income from continuing operations before income taxes and equity method investment earnings	76.6	311.2	204.7	469.4
Income tax expense	84.0	106.0	126.5	134.9
Equity method investment earnings	34.0	5.2	59.6	9.3
Income from continuing operations	26.6	210.4	137.8	343.8
Income (loss) from discontinued operations, net of tax	(10.7	) 42.0	362.6	55.8
Net income	\$15.9	\$ 252.4	\$500.4	\$ 399.6
Less: Net income attributable to noncontrolling interests	5.9	3.7	8.1	6.6
Net income attributable to ConAgra Foods, Inc.	\$10.0	\$ 248.7	\$492.3	\$ 393.0
Earnings per share — basic				
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	\$0.05	\$ 0.49	\$0.30	\$ 0.80
Income (loss) from discontinued operations attributable to ConAgra Foods, Inc. common stockholders	(0.03	) 0.10	0.86	0.13
Net income attributable to ConAgra Foods, Inc. common stockholders	\$0.02	\$ 0.59	\$1.16	\$ 0.93
Earnings per share — diluted				
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	\$0.05	\$ 0.48	\$0.30	\$ 0.79
Income (loss) from discontinued operations attributable to ConAgra Foods, Inc. common stockholders	(0.03	) 0.10	0.84	0.13
Net income attributable to ConAgra Foods, Inc. common stockholders	\$0.02	\$ 0.58	\$1.14	\$ 0.92
Cash dividends declared per common share	\$0.25	\$ 0.25	\$0.50	\$ 0.50

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 November 23, 2014		Twenty-six weeks ended November 23, 2014	
	2013	2014	2013	2014
Net income	\$ 15.9	\$ 252.4	\$ 500.4	\$ 399.6
Other comprehensive income:				
Derivative adjustments, net of tax:				
Unrealized derivative adjustments	—	(6.2)	—	39.3
Reclassification for derivative adjustments included in net income	—	—	(0.3)	0.1
Unrealized gains on available-for-sale securities, net of tax	0.1	0.3	0.2	0.4
Unrealized currency translation gains (losses)	(35.1)	10.0	(52.8)	(21.0)
Pension and post-employment benefit obligations, net of tax:				
Unrealized pension and post-employment benefit obligations	0.1	0.9	2.9	0.2
Reclassification for pension and post-employment benefit obligations included in net income	(0.2)	0.5	(0.3)	1.0
Comprehensive income (loss)	(19.2)	257.9	450.1	419.6
Less: Comprehensive income (loss) attributable to noncontrolling interests	4.0	5.8	3.2	(3.3)
Comprehensive income (loss) attributable to ConAgra Foods, Inc.	\$(23.2)	\$ 252.1	\$ 446.9	\$ 422.9

See notes to the condensed consolidated financial statements.

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

	November 23, 2014	May 25, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 121.9	\$ 141.3
Receivables, less allowance for doubtful accounts of \$4.9 and \$4.0	1,201.1	1,058.4
Inventories	2,532.9	2,077.0
Prepaid expenses and other current assets	260.2	322.4
Current assets held for sale	—	631.7
Total current assets	4,116.1	4,230.8
Property, plant and equipment	7,304.8	7,108.8
Less accumulated depreciation	(3,669.4	) (3,472.8
Property, plant and equipment, net	3,635.4	3,636.0
Goodwill	7,616.8	7,828.5
Brands, trademarks and other intangibles, net	3,114.9	3,204.9
Other assets	1,007.6	267.3
Noncurrent assets held for sale	10.9	198.9
	\$ 19,501.7	\$ 19,366.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable	\$ 550.7	\$ 141.8
Current installments of long-term debt	258.9	84.1
Accounts payable	1,643.4	1,349.3
Accrued payroll	185.5	154.3
Other accrued liabilities	766.8	748.1
Current liabilities held for sale	—	164.8
Total current liabilities	3,405.3	2,642.4
Senior long-term debt, excluding current installments	7,473.1	8,571.5
Subordinated debt	195.9	195.9
Other noncurrent liabilities	2,772.3	2,599.4
Noncurrent liabilities held for sale	—	2.0
Total liabilities	13,846.6	14,011.2
Commitments and contingencies (Note 13)		
Common stockholders' equity		
Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 567,907,172	2,839.7	2,839.7
Additional paid-in capital	1,022.0	1,036.9
Retained earnings	5,290.1	5,010.6
Accumulated other comprehensive loss	(179.7	) (134.3
Less treasury stock, at cost, 141,990,220 and 145,992,121 common shares	(3,403.0	) (3,494.4
Total ConAgra Foods, Inc. common stockholders' equity	5,569.1	5,258.5
Noncontrolling interests	86.0	96.7
Total stockholders' equity	5,655.1	5,355.2
	\$ 19,501.7	\$ 19,366.4

See notes to the condensed consolidated financial statements.

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

	Twenty-six weeks ended	
	November 23, 2014	November 24, 2013
Cash flows from operating activities:		
Net income	\$500.4	\$ 399.6
Income from discontinued operations	362.6	55.8
Income from continuing operations	137.8	343.8
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	297.8	277.8
Asset impairment charges	250.4	14.8
Earnings of affiliates less than (in excess of) distributions	(52.4	) 1.4
Share-based payments expense	35.0	31.8
Contributions to pension plans	(6.4	) (10.1
Pension expense	(7.2	) (4.5
Other items	18.9	(5.5
Change in operating assets and liabilities excluding effects of business acquisitions and dispositions:		
Accounts receivable	(137.7	) (139.7
Inventory	(451.2	) (364.6
Deferred income taxes and income taxes payable, net	(20.5	) 106.0
Prepaid expenses and other current assets	33.1	53.2
Accounts payable	291.7	286.8
Accrued payroll	37.8	(100.4
Other accrued liabilities	(16.5	) 50.5
Net cash flows from operating activities — continuing operations	410.6	541.3
Net cash flows from operating activities — discontinued operations	7.1	41.4
Net cash flows from operating activities	417.7	582.7
Cash flows from investing activities:		
Additions to property, plant and equipment	(202.1	) (342.5
Sale of property, plant and equipment	4.7	12.1
Purchase of business, net of cash acquired	(75.4	) (39.6
Return of investment in equity method investee	391.4	—
Net cash flows from investing activities — continuing operations	118.6	(370.0
Net cash flows from investing activities — discontinued operations	114.0	38.0
Net cash flows from investing activities	232.6	(332.0
Cash flows from financing activities:		
Net short-term borrowings	392.8	48.7
Issuance of long-term debt	550.0	—
Repayment of long-term debt	(1,489.4	) (50.7
Repurchase of ConAgra Foods, Inc. common shares	—	(100.0
Cash dividends paid	(211.7	) (210.4
Exercise of stock options and issuance of other stock awards	55.2	70.3
Other items	(6.9) 0.8

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Net cash flows from financing activities:	(710.0) (241.3)
Effect of exchange rate changes on cash and cash equivalents	(1.5) (0.6)
Net change in cash and cash equivalents	(61.2	) 8.8	
Discontinued operations cash activity included above:			
Add: Cash balance included in assets held for sale at beginning of period	41.8	33.0	
Less: Cash balance included in assets held for sale at end of period	—	24.6	
Cash and cash equivalents at beginning of period	141.3	150.9	
Cash and cash equivalents at end of period	\$ 121.9	\$ 168.1	
See notes to the condensed consolidated financial statements.			

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ConAgra Foods, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Twenty-six Weeks ended November 23, 2014 and November 24, 2013

(columnar dollars in millions except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the ConAgra Foods, Inc. (the "Company," "we," "us," or "our") Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

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

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

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2014	November 24, 2013	November 23, 2014	November 24, 2013
Net derivative adjustment	\$—	\$(3.6)	\$(0.2)	\$23.3
Unrealized gains on available-for-sale securities	0.1	0.1	0.1	0.2
Pension and postretirement healthcare liabilities	(0.1)	0.7	0.8	0.7
Income tax expense (benefit)	\$—	\$(2.8)	\$0.7	\$24.2

The following tables summarize the reclassifications from accumulated other comprehensive loss into income:

	Thirteen weeks ended		Affected Line Item in the Condensed Consolidated Statement of Earnings
	November 23, 2014	November 24, 2013	
Amortization of pension and postretirement healthcare liabilities:			
Net prior service benefit	\$(1.0)	\$(0.9)	Selling, general and administrative expenses
Net actuarial losses	0.8	1.7	Selling, general and administrative expenses
	(0.2)	0.8	Total before tax
	—	(0.3)	Income tax expense (benefit)
	\$(0.2)	\$0.5	Net of tax

	Twenty-six weeks ended		Affected Line Item in the Condensed Consolidated Statement of Earnings
	November 23, 2014	November 24, 2013	
Net derivative adjustment:			
Cash flow hedges	\$ (0.5	) \$ 0.1	Interest expense, net
	0.2	—	Income tax expense
	\$ (0.3	) \$ 0.1	Net of tax
Amortization of pension and postretirement healthcare liabilities:			
Net prior service benefit	\$ (2.1	) \$ (1.7	) Selling, general and administrative expenses
Net actuarial losses	1.7	3.3	Selling, general and administrative expenses
	(0.4	) 1.6	Total before tax
	0.1	(0.6	) Income tax expense (benefit)
	\$ (0.3	) \$ 1.0	Net of tax

Reclassifications and other changes — Certain prior year amounts have been reclassified to conform with current year presentation. In addition, the prior year condensed consolidated statement of cash flows reflects a correction to the twenty-six week period ended November 24, 2013 for non-cash additions to property, plant and equipment resulting in an increase to operating cash flows and an increase in cash used in investing cash flows by \$27.0 million, of which \$2.4 million is related to discontinued operations.

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

Accounting Changes — In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which states that entities should present the unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss (“NOL”) or similar tax loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward under the tax law. No new disclosures are necessary. We adopted this ASU as of the beginning of fiscal 2015. This did not result in a material change to our financial statements.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Components of an Entity, which updates the definition of discontinued operations under U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). Going forward, only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. Previously, a component of an entity that is a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. Additionally, the condition that the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction has been removed. The effective date for the revised standard is for applicable transactions that occur within annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We adopted this standard in the first quarter of fiscal 2015. This resulted in the presentation of historical results of our milling business, prior to the creation of the Ardent Mills joint venture (“Ardent Mills”), as discontinued operations.

Recently Issued Accounting Standards — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP. The new standard is effective for the Company in our fiscal year 2018. Early adoption is not permitted. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and

related disclosures. The standard permits the use of either the retrospective or cumulative effect transition method.

2. ACQUISITIONS

In July 2014, we acquired TaiMei Potato Industry Limited, a potato processor in China, for \$92.5 million, consisting of \$75.4 million net of cash acquired plus assumed liabilities. The purchase included property and equipment associated with making frozen potato products. Approximately \$21.6 million of the purchase price has been classified as goodwill pending determination of the final purchase price allocation. Approximately \$1.3 million of the purchase price has been allocated to other intangible assets. The amount allocated to

goodwill is not deductible for income tax purposes. Based on the purchase agreement, we expect to make adjustments to the preliminary allocation of the purchase price paid over the next several quarters. This business is included in the Commercial Foods segment.

In September 2013, we acquired frozen dessert production assets from Harlan Bakeries for \$39.9 million in cash. The purchase included machinery, operating systems, warehousing/storage, and other assets associated with making frozen fruit pies, cream pies, pastry shells, and loaf cakes. This business is included in the Consumer Foods segment.

Under the acquisition method of accounting, the assets acquired and liabilities assumed in these acquisitions were recorded at their respective estimated fair values at the date of acquisition.

3. DISCONTINUED OPERATIONS, OTHER ASSETS HELD FOR SALE, AND THE FORMATION OF ARDENT MILLS

Formation of Ardent Mills

On May 29, 2014, the Company, Cargill, Incorporated, and CHS, Inc. completed the formation of Ardent Mills. In connection with the formation, we contributed all of the assets of ConAgra Mills, including \$49.0 million of cash, to Ardent Mills, we received a 44% ownership interest in Ardent Mills, and Ardent Mills distributed \$391.4 million to us in cash as a return of capital. The contribution of the assets of ConAgra Mills in exchange for a non-controlling interest in the newly formed joint venture is required to be accounted for at fair value, and accordingly, we recognized a gain of \$625.6 million (\$375.9 million after-tax) in the first half of fiscal 2015 in income from discontinued operations, to reflect the excess of the fair value of our interest over its carrying value at the time of the transfer. As part of the formation of Ardent Mills, in the fourth quarter of fiscal 2014, pursuant to an agreement with the U.S. Department of Justice, we sold three flour milling facilities to Miller Milling Company LLC for \$163.0 million. We received the cash proceeds from the sale of these flour milling facilities in the first quarter of fiscal 2015. In the first quarter of fiscal 2015, we used the net cash proceeds from the Ardent Mills transaction to repay debt. The operating results of our legacy milling business, including the disposition of three mills aforementioned, are included as discontinued operations within our Condensed Consolidated Statement of Earnings. The related assets and liabilities have been reclassified as assets and liabilities held for sale within our Condensed Consolidated Balance Sheet for the periods presented prior to divestiture.

We recognized the 44% ownership interest in Ardent Mills at fair value, as of the date of the formation of the joint venture. We now recognize our proportionate share of the earnings of Ardent Mills under the equity method of accounting within results of continuing operations. Due to differences in fiscal reporting periods, we recognized the equity method earnings on a lag of approximately one month; and as a result, we recognized only five months of earnings from Ardent Mills in the first half of fiscal 2015. At November 23, 2014, the carrying value of our equity method investment in Ardent Mills was \$746.7 million, which is included in Other Assets.

We entered into transition services agreements in connection with this contribution and recognized \$3.5 million and \$7.3 million of income during the second quarter and first half of fiscal 2015, respectively, classified within selling, general and administrative expenses.

Medallion Foods

In the fourth quarter of fiscal 2014, we completed the sale of a small snack business, Medallion Foods, for \$32.0 million in cash. The business results were previously reflected in the Private Brands segment. We reflected the results of these operations as discontinued operations for all periods presented.

Lightlife® Operations

In the second quarter of fiscal 2014, we completed the sale of the assets of the Lightlife® business for \$54.7 million in cash. This business produced and sold vegetarian-based burgers, hot dogs, and other meatless frozen and refrigerated items. The results of this business were previously reflected in the Consumer Foods segment. We reflected the results of these operations as discontinued operations for all periods presented.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23,	November	November	November
	2014	24, 2013	23, 2014	24, 2013
Net sales	\$—	\$493.6	\$16.2	\$984.4
Net gain on sale of businesses	\$0.8	\$32.1	\$627.3	\$32.1
Income (loss) from operations of discontinued operations before income taxes and equity method investment earnings	2.6	36.0	(10.4	) 55.4
Income before income taxes	3.4	68.1	616.9	87.5
Income tax expense	14.1	26.1	254.3	31.8
Equity method investment earnings	—	—	—	0.1
Income (loss) from discontinued operations, net of tax	\$(10.7	) \$42.0	\$362.6	\$55.8

Other Assets Held for Sale

During the third quarter of fiscal 2014, we began actively marketing for sale an onion processing facility previously acquired from an onion products supplier. The processing facility assets have been reclassified as assets held for sale within our Condensed Consolidated Balance Sheets for all periods presented. These assets are held within our Commercial Foods segment.

The assets and liabilities classified as held for sale reflected in our Condensed Consolidated Balance Sheets were as follows:

	November 23, 2014	May 25, 2014
Cash and cash equivalents	\$—	\$41.8
Receivables, less allowance for doubtful accounts of \$0 and \$1.2	—	172.4
Receivable on sale of flour milling assets	—	162.4
Inventories	—	215.6
Prepaid expenses and other current assets	—	39.5
Current assets held for sale	\$—	\$631.7
Property, plant and equipment, net	\$10.9	\$186.8
Goodwill	—	8.0
Brands, trademarks and other intangibles, net	—	0.9
Other assets	—	3.2
Noncurrent assets held for sale	\$10.9	\$198.9
Current installments of long-term debt	\$—	\$0.1
Accounts payable	—	143.1
Accrued payroll	—	2.3
Other accrued liabilities	—	19.3
Current liabilities held for sale	\$—	\$164.8
Senior long-term debt, excluding current installments	\$—	\$0.1
Other noncurrent liabilities	—	1.9
Noncurrent liabilities held for sale	\$—	\$2.0

4. RESTRUCTURING ACTIVITIES

Supply Chain and Administrative Efficiency Plan

We continue to execute a plan for the integration and restructuring of the operations of Ralcorp Holdings, Inc. ("Ralcorp"), optimization of the entire Company's supply chain network, manufacturing assets, and dry distribution and mixing centers, and improvement of selling, general and administrative effectiveness and efficiencies, which we refer to as the Supply Chain and Administrative Efficiency Plan (the "SCAE Plan").

Although we remain unable to make good faith estimates relating to the entire SCAE Plan, we are reporting on actions initiated through the end of the second quarter of fiscal 2015, including the estimated amounts or range of amounts for each major type of costs expected to be incurred, and the charges that have resulted or will result in cash outflows. As of the date of this report, our Board of Directors has approved the incurrence of up to \$325.0 million of expenses in connection with the SCAE Plan. We have incurred or expect to incur approximately \$217.6 million of charges (\$157.1 million of cash charges and \$60.5 million of non-cash charges) for actions identified to date under the SCAE plan. In the second quarter and first half of fiscal 2015, we recognized charges of \$17.4 million and \$38.5 million, respectively, in relation to the SCAE Plan. In the second quarter and first half of fiscal 2014, we recognized charges of \$7.3 million and \$14.6 million, respectively, in relation to the SCAE Plan. We expect to incur costs related to the SCAE Plan over a multi-year period.

We anticipate that we will recognize the following pre-tax expenses in association with the SCAE Plan (amounts include charges recognized in fiscal 2013, 2014, and the first half of fiscal 2015):

	Consumer Foods	Commercial Foods	Private Brands	Corporate	Total
Multi-employer pension costs	\$—	\$—	\$—	\$11.4	\$11.4
Other cost of goods sold	3.3	—	2.4	—	5.7
Total cost of goods sold	3.3	—	2.4	11.4	17.1
Severance and related costs (recoveries)	14.4	8.6	9.4	44.0	76.4
Fixed asset impairment / Loss on disposal	0.3	—	5.8	0.4	6.5
Accelerated depreciation	25.5	—	22.3	3.1	50.9
Other selling, general and administrative expenses	8.2	—	26.3	32.2	66.7
Total selling, general and administrative expenses	48.4	8.6	63.8	79.7	200.5
Consolidated total	\$51.7	\$ 8.6	\$66.2	\$91.1	\$217.6

During the second quarter of fiscal 2015, we recognized the following pre-tax expenses for the SCAE Plan:

	Consumer Foods	Commercial Foods	Private Brands	Corporate	Total
Severance and related costs (recoveries)	\$—	\$(0.5)	\$(0.2)	\$(0.1)	\$(0.8)
Asset impairment	—	—	—	0.4	0.4
Accelerated depreciation	6.4	—	2.1	0.6	9.1
Other selling, general and administrative expenses	1.4	—	2.8	4.5	8.7
Total selling, general and administrative expenses	7.8	(0.5)	4.7	5.4	17.4
Consolidated total	\$7.8	\$(0.5)	\$4.7	\$5.4	\$17.4

Included in the above results are \$7.5 million of charges that have resulted or will result in cash outflows and \$9.9 million in non-cash charges.

During the first half of fiscal 2015, we recognized the following pre-tax expenses for the SCAE Plan:

	Consumer Foods	Commercial Foods	Private Brands	Corporate	Total
Multi-employer pension costs	\$—	\$—	\$—	\$0.2	\$0.2
Other cost of goods sold	—	—	0.6	—	0.6
Total cost of goods sold	—	—	0.6	0.2	0.8
Severance and related costs	1.4	3.8	0.5	—	5.7
Asset impairment	—	—	1.9	0.4	2.3
Accelerated depreciation	13.9	—	2.6	1.3	17.8
Other selling, general and administrative expenses	1.7	—	5.1	5.1	11.9
Total selling, general and administrative expenses	17.0	3.8	10.1	6.8	37.7
Consolidated total	\$17.0	\$ 3.8	\$10.7	\$7.0	\$38.5

Included in the above results are \$17.4 million of charges that have resulted or will result in cash outflows and \$21.1 million in non-cash charges.

We recognized the following cumulative (plan inception to November 23, 2014) pre-tax expenses related to the SCAE Plan in our Condensed Consolidated Statement of Earnings:

	Consumer Foods	Commercial Foods	Private Brands	Corporate	Total
Multi-employer pension costs	\$—	\$—	\$—	\$11.4	\$11.4
Other cost of goods sold	0.8	—	1.2	—	2.0
Total cost of goods sold	0.8	—	1.2	11.4	13.4
Severance and related costs	14.1	8.6	9.4	42.6	74.7
Asset impairment	0.3	—	5.8	0.4	6.5
Accelerated depreciation	16.3	—	17.7	1.9	35.9
Other selling, general and administrative expenses	1.7	—	10.1	8.3	20.1
Total selling, general and administrative expenses	32.4	8.6	43.0	53.2	137.2
Consolidated total	\$33.2	\$ 8.6	\$44.2	\$64.6	\$150.6

Included in the above results are \$106.5 million of charges that have resulted or will result in cash outflows and \$44.1 million in non-cash charges.

Liabilities recorded for the SCAE Plan and changes therein for the second quarter of fiscal 2015 were as follows:

	Balance at May 25, 2014	Costs Incurred and Charged to Expense	Costs Paid or Otherwise Settled	Changes in Estimates	Balance at November 23, 2014
Severance	\$46.9	\$8.7	\$(33.6)	\$(3.0)	\$19.0
Multi-employer pension costs	11.2	—	—	0.2	11.4
Other costs	6.0	13.0	(11.0)	(1.5)	6.5
Total	\$64.1	\$21.7	\$(44.6)	\$(4.3)	\$36.9

Acquisition-related Restructuring Costs

During fiscal 2012, we started incurring costs in connection with actions taken to attain synergies when integrating businesses acquired prior to the third quarter of fiscal 2013. These costs, collectively referred to as "acquisition-related restructuring costs", include severance and other costs associated with consolidating facilities and administrative functions. In connection with the acquisition-related restructuring costs, we incurred pre-tax cash and non-cash charges of \$23.7 million (\$21.2 million in the Consumer Foods segment and \$2.5 million in Corporate expenses) cumulatively since inception. In the second quarter and first half of fiscal 2015, we incurred \$0.1 million and \$0.3 million, respectively, in the Consumer Foods segment. In the second quarter and first half of fiscal 2014, we incurred \$2.4 million and \$3.3 million, respectively, in the Consumer Foods segment. The acquisition-related restructuring costs are substantially complete.

Ralcorp Pre-acquisition Restructuring Plans

At the time of its acquisition, Ralcorp had certain initiatives underway designed to optimize its manufacturing and distribution networks. We refer to these actions and the related costs as "Ralcorp Pre-acquisition Restructuring Plans". These plans consisted of projects that involved, among other things, the exit of certain manufacturing facilities. In connection with the Ralcorp Pre-acquisition Restructuring Plans, we have incurred \$3.7 million (\$3.5 million in the Private Brands segment and \$0.2 million in Corporate expenses) that have resulted or will result in cash outflows of \$1.9 million and non-cash charges of \$1.8 million. In the second quarter and first half of fiscal 2014, we recognized charges of \$1.3 million and \$2.6 million, respectively. At the end of fiscal 2014, the Ralcorp Pre-acquisition Restructuring Plans were substantially complete.

5. LONG-TERM DEBT

During the first quarter of fiscal 2015, we repurchased \$225.0 million aggregate principal amount of senior notes due 2023, \$200.0 million aggregate principal amount of senior notes due 2043, \$25.0 million aggregate principal amount of senior notes due 2019, \$25.0 million aggregate principal amount of senior notes due 2018, and \$25.0 million aggregate principal amount of senior notes due 2017, in each case prior to maturity in a tender offer, resulting in a net loss of \$16.3 million as a cost of early retirement of debt, including a \$9.5 million tender premium.

During the first quarter of fiscal 2015, we repaid the remaining borrowings of our unsecured term loan facility (the "Term Loan Facility") of \$900.0 million (with an interest rate at LIBOR plus 1.75% per annum), prior to maturity, resulting in a loss of \$8.3 million as a cost of early retirement of debt. The Term Loan Facility was terminated after repayment.

During the first quarter of fiscal 2015, we issued \$550.0 million aggregate principal amount of floating rate notes due July 21, 2016. The notes bear interest at a rate equal to three-month LIBOR plus 0.37% per annum.

During the second quarter of fiscal 2014, we repurchased \$43.0 million of 4.65% senior notes due 2043 prior to maturity, resulting in a net gain of \$2.4 million.

Net interest expense consists of:

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23,	November 24,	November 23,	November 24,
	2014	2013	2014	2013
Long-term debt	\$80.0	\$ 99.4	\$165.6	\$ 199.1
Short-term debt	0.8	0.5	1.3	0.8
Interest income	(0.3)	(0.8)	(0.8)	(1.3)
Interest capitalized	(1.2)	(3.6)	(3.1)	(7.3)
	\$79.3	\$ 95.5	\$163.0	\$ 191.3

During the third quarter of fiscal 2014, we entered into interest rate swap contracts to hedge the fair value of certain of our senior long-term debt instruments maturing in fiscal 2019 and 2020, effectively converting interest on this debt from fixed rate to floating rate (see Note 8). These swaps, which are designated as fair value hedges, reduced our interest expense by \$2.6 million and \$5.2 million in the second quarter and first half of fiscal 2015, respectively.

We entered into interest rate swaps during fiscal 2010 that effectively changed our interest rate on the senior long-term debt instrument that matured in fiscal 2014 from fixed to variable. During the second quarter of fiscal 2011, we terminated these interest rate swap contracts and received proceeds of \$28.2 million. The cumulative adjustment to the fair value of the debt instrument that was hedged (the effective portion of the hedge) and was amortized as a reduction of interest expense over the remaining life of the debt instrument (through fiscal 2014). Net interest expense for the second quarter and first half of fiscal 2014 was reduced by \$2.4 million and \$4.7 million, respectively.

6. VARIABLE INTEREST ENTITIES

Variable Interest Entities Consolidated

We own a 49.99% interest in Lamb Weston BSW, LLC ("Lamb Weston BSW"), a potato processing venture with Ochoa Ag Unlimited Foods, Inc. ("Ochoa"). We provide all sales and marketing services to Lamb Weston BSW. Under certain circumstances, we could be required to compensate Ochoa for lost profits resulting from significant production shortfalls ("production shortfalls"). Commencing on June 1, 2018, or on an earlier date under certain circumstances, we have a contractual right to purchase the remaining equity interest in Lamb Weston BSW from Ochoa (the "call option"). We are currently subject to a contractual obligation to purchase all of Ochoa's equity investment in Lamb Weston BSW at the option of Ochoa (the "put option"). The purchase prices under the call option and the put option (the "options") are based on the book value of Ochoa's equity interest at the date of exercise, as modified by an agreed-upon rate of return for the holding period of the investment balance. The agreed-upon rate of return varies depending on the circumstances under which any of the options are exercised. As of November 23, 2014, the price at which Ochoa had the right to put its equity interest to us was \$43.4 million. This amount is presented within other noncurrent liabilities in our Condensed Consolidated Balance Sheets. We have determined that Lamb

Weston BSW is a variable interest entity and that we are the primary beneficiary of the entity. Accordingly, we consolidate the financial statements of Lamb Weston BSW.

We hold a promissory note from Lamb Weston BSW, the balance of which was \$36.1 million at November 23, 2014. The promissory note is due in December 2015. The promissory note is currently accruing interest at a rate of LIBOR plus 200 basis points with a floor of 3.25%. In addition, as of November 23, 2014, we provided lines of credit of up to \$15.0 million to Lamb Weston BSW. Borrowings

under the lines of credit bear interest at a rate of LIBOR plus 200 basis points with a floor of 3.25%. The amounts owed by Lamb Weston BSW to the Company are not reflected in our Condensed Consolidated Balance Sheets, as they are eliminated in consolidation.

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

Due to the consolidation of this variable interest entity, we reflected in our Condensed Consolidated Balance Sheets:

	November 23, 2014	May 25, 2014
Cash and cash equivalents	\$ 17.8	\$ 17.7
Receivables, less allowance for doubtful accounts	0.1	—
Inventories	1.7	1.4
Prepaid expenses and other current assets	—	0.3
Property, plant and equipment, net	50.4	51.8
Goodwill	18.8	18.8
Brands, trademarks and other intangibles, net	6.3	6.7
Total assets	\$ 95.1	\$ 96.7
Accounts payable	\$ 11.3	\$ 12.2
Accrued payroll	0.8	0.5
Other accrued liabilities	0.6	0.6
Other noncurrent liabilities (noncontrolling interest)	34.0	33.3
Total liabilities	\$ 46.7	\$ 46.6

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

Variable Interest Entities Not Consolidated

We also have variable interests in certain other entities that we have determined to be variable interest entities, but for which we are not the primary beneficiary. We do not consolidate the financial statements of these entities.

We hold a 50% interest in Lamb Weston RDO, a potato processing venture. We provide all sales and marketing services to Lamb Weston RDO. We receive a fee for these services based on a percentage of the net sales of the venture. We reflect the value of our ownership interest in this venture in other assets in our Condensed Consolidated Balance Sheets, based upon the equity method of accounting. The balance of our investment was \$13.5 million and \$12.6 million at November 23, 2014 and May 25, 2014, respectively, representing our maximum exposure to loss as a result of our involvement with this venture. The capital structure of Lamb Weston RDO includes owners' equity of \$27.1 million and term borrowings from banks of \$42.2 million as of November 23, 2014. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of this venture.

We lease certain office buildings from entities that we have determined to be variable interest entities. The lease agreements with these entities include fixed-price purchase options for the assets being leased, representing our only variable interest in these lessor entities. These leases are accounted for as operating leases, and accordingly, there are

no material assets or liabilities associated with these entities included in our Condensed Consolidated Balance Sheets. We have no material exposure to loss from our variable interests in these entities. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of these entities. In making this determination, we have considered, among other items, the terms of the lease agreements, the expected remaining useful lives of the assets leased, and the capital structure of the lessor entities.

7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first half of fiscal 2015 was as follows:

	Consumer Foods	Commercial Foods	Private Brands	Total
Balance as of May 25, 2014	\$3,748.5	\$865.4	\$3,214.6	\$7,828.5
Impairment	—	—	(216.6)	(216.6)
Acquisitions	—	21.6	—	21.6
Currency translation adjustments	(10.2)	(0.4)	(6.1)	(16.7)
Balance as of November 23, 2014	\$3,738.3	\$886.6	\$2,991.9	\$7,616.8

Other identifiable intangible assets were as follows:

	November 23, 2014		May 25, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	\$1,025.7	\$—	\$1,059.5	\$—
Amortizing intangible assets	2,373.7	284.5	2,376.1	230.7
	\$3,399.4	\$284.5	\$3,435.6	\$230.7

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

Amortizing intangible assets, carrying a remaining weighted average life of approximately 21 years, are principally composed of customer relationships, licensing arrangements, and intellectual property. Based on amortizing assets recognized in our Condensed Consolidated Balance Sheet as of November 23, 2014, amortization expense is estimated to average \$108.3 million for each of the next five years.

Because forecasted sales and profits for the Private Brands segment for fiscal 2015 continue to fall below our expectations relative to our previous projections, we performed a quantitative analysis of goodwill of our Private Brands reporting units in the second quarter of fiscal 2015. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans and future industry and economic conditions. We estimated the future cash flows of each of the at-risk reporting units within the Private Brands segment and calculated the net present value of those estimated cash flows using a risk adjusted discount rate, in order to estimate the fair value of each reporting unit from the perspective of a market participant. We used discount rates and terminal growth rates of approximately 8% and 3%, respectively, to calculate the present value of estimated future cash flows. We then compared the estimated fair value of each reporting unit to the respective historical carrying value (including allocated assets and liabilities of certain shared and Corporate functions), and determined that the fair value of the reporting unit was less than the carrying value for five of our reporting units within the Private Brands segment. With the assistance of a third-party valuation specialist, we estimated the fair value of the assets and liabilities of each of these reporting units in order to determine the implied fair value of goodwill of each reporting unit. We recognized impairment charges for the difference between the implied fair value of goodwill and the historical carrying value of goodwill within each reporting unit. Accordingly, during the second quarter of fiscal 2015, we recorded a \$216.6 million charge for the impairment of goodwill. The following reporting units within the Private Brands segment were impacted: \$31.9 million in Bars and Coordinated; \$18.1 million in Cereal; \$146.6 million in Snacks; and \$20.0 million in Retail Bakery.

In the case of two reporting units within the Private Brands segment: Snacks and Retail Bakery, the estimated fair value of certain amortizing intangible assets (customer relationships) used in step two of our impairment analysis was substantially less than the carrying value of those assets and, as a result, the carrying value of the Snacks and Retail Bakery reporting units exceeded the estimated fair value of those reporting units, even after the previously described goodwill impairment charges were recorded. The carrying value of the Private Brands amortizing intangible assets are expected to be recovered over their remaining lives (on an undiscounted basis) and, accordingly, no impairments were required to be recognized.

Following the impairment charges recorded in fiscal 2015, the carrying value of goodwill in our Private Brands reporting units included \$296.8 million for Bars and Coordinated, \$446.3 million for Cereal, \$748.8 million for Pasta, \$668.7 million for Snacks, \$695.2 million for Retail Bakery, and \$136.1 million for Condiments. If the future performance of one or more of the reporting units within the Private Brands segment falls short of our expectations or if there are significant changes in risk-adjusted discount rates due to changes in market conditions, we could be required to recognize additional, material impairment charges in future periods.

In the second quarter of fiscal 2015, we also performed a quantitative impairment test for non-amortizing intangible assets within the Private Brands segment, which are comprised of brands and trademarks. We recognized impairment charges of \$30.0 million in our Private Brands segment to write-down three small brands.

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

Commodity and commodity index futures and option contracts are used from time to time to economically hedge commodity input prices on items such as natural gas, vegetable oils, proteins, packaging materials, dairy, grains, and electricity. Generally, we economically hedge a portion of our anticipated consumption of commodity inputs for periods of up to 36 months. We may enter into longer-term economic hedges on particular commodities, if deemed appropriate. As of November 23, 2014, we had economically hedged certain portions of our anticipated consumption of commodity inputs using derivative instruments with expiration dates through March 2016.

In order to reduce exposures related to changes in foreign currency exchange rates, we enter into forward exchange, option, or swap contracts from time to time for transactions denominated in a currency other than the applicable functional currency. This includes, but is not limited to, hedging against foreign currency risk in purchasing inventory and capital equipment, sales of finished goods, and future settlement of foreign-denominated assets and liabilities. As of November 23, 2014, we had economically hedged certain portions of our foreign currency risk in anticipated transactions using derivative instruments with expiration dates through May 2017.

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

Derivatives Designated as Cash Flow Hedges

During fiscal 2013, we entered into interest rate swap contracts to hedge a portion of the interest rate risk related to our issuance of long-term debt to partially finance the acquisition of Ralcorp. We settled these contracts during the third quarter of fiscal 2013 resulting in a deferred gain of \$4.2 million on senior notes maturing in 2043 and a deferred loss of \$2.0 million on senior notes maturing in 2023, both recognized in accumulated other comprehensive loss. These amounts are being amortized as a component of net interest expense over the lives of the related debt instruments. The unamortized amounts of the deferred gain and deferred loss at November 23, 2014 were \$3.0 million and \$1.4 million, respectively.

Derivatives Designated as Fair Value Hedges

During the third quarter of fiscal 2014, we entered into interest rate swap contracts to hedge the fair value of certain of our senior long-term debt instruments maturing in fiscal 2019 and 2020, effectively converting interest on this debt from fixed rate to floating rate. We designated these interest rate swap contracts as fair value hedges of the debt instruments.

Changes in fair value of such derivative instruments are immediately recognized in earnings along with changes in the fair value of the items being hedged (based solely on the change in the benchmark interest rate). In the second quarter and first half of fiscal 2015, we recognized gains of \$2.9 million and \$0.7 million, respectively, representing the change in fair value of the interest rate swap contracts and losses of \$2.6 million and \$0.1 million, respectively, representing the change in fair value of the related senior long-term debt. The net gains of \$0.3 million for the second quarter and \$0.6 million for the first half of fiscal 2015 are classified within selling, general and administrative expenses.

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

Economic Hedges of Forecasted Cash Flows

Many of our derivatives do not qualify for, and we do not currently designate certain commodity or foreign currency derivatives to achieve, hedge accounting treatment. We reflect realized and unrealized gains and losses from derivatives used to economically hedge anticipated commodity consumption and to mitigate foreign currency cash

flow risk in earnings immediately within general corporate expense (within cost of goods sold). The gains and losses are reclassified to segment operating results in the period in which the underlying item being economically hedged is recognized in cost of goods sold. In the event that management determines a particular derivative entered into as an economic hedge of a forecasted commodity purchase has ceased to function as an economic hedge, we cease recognizing further gains and losses on such derivatives in corporate expense and begin recognizing such gains and losses within segment operating results, immediately.

Economic Hedges of Fair Values — Foreign Currency Exchange Rate Risk

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

All derivative instruments are recognized on our balance sheets at fair value (refer to Note 16 for additional information related to fair value measurements). The fair value of derivative assets is recognized within prepaid expenses and other current assets, while the fair value of derivative liabilities is recognized within other accrued liabilities. In accordance with U.S. GAAP, we offset certain derivative asset and liability balances, as well as certain amounts representing rights to reclaim cash collateral and obligations to return cash collateral, where master netting agreements provide for legal right of setoff. At November 23, 2014, \$12.6 million, representing a right to reclaim cash collateral, was included in prepaid expenses and other current assets, and at May 25, 2014, \$6.2 million, representing an obligation to return cash collateral, was included in other accrued liabilities in our Condensed Consolidated Balance Sheets.

Derivative assets and liabilities and amounts representing a right to reclaim cash collateral or obligation to return cash collateral were reflected in our Condensed Consolidated Balance Sheets as follows:

	November 23, 2014	May 25, 2014
Prepaid expenses and other current assets	\$31.2	\$38.8
Other accrued liabilities	22.6	10.4

The following table presents our derivative assets and liabilities, at November 23, 2014, on a gross basis, prior to the setoff of \$15.5 million to total derivative assets and \$28.1 million to total derivative liabilities where legal right of setoff existed:

	Derivative Assets Balance Sheet Location	Fair Value	Derivative Liabilities Balance Sheet Location	Fair Value
Interest rate swap contracts	Prepaid expenses and other current assets	\$9.8	Other accrued liabilities	\$—
Total derivatives designated as hedging instruments		\$9.8		\$—
Commodity contracts	Prepaid expenses and other current assets	\$26.0	Other accrued liabilities	\$50.5
Foreign exchange contracts	Prepaid expenses and other current assets	10.6	Other accrued liabilities	0.2
Other	Prepaid expenses and other current assets	0.3	Other accrued liabilities	—
Total derivatives not designated as hedging instruments		\$36.9		\$50.7
Total derivatives		\$46.7		\$50.7

The following table presents our derivative assets and liabilities at May 25, 2014, on a gross basis, prior to the setoff of \$13.0 million to total derivative assets and \$6.8 million to total derivative liabilities where legal right of setoff existed:

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap contracts	Prepaid expenses and other current assets	\$9.1	Other accrued liabilities	\$—
Total derivatives designated as hedging instruments		\$9.1		\$—
Commodity contracts	Prepaid expenses and other current assets	\$28.6	Other accrued liabilities	\$13.9
Foreign exchange contracts	Prepaid expenses and other current assets	13.4	Other accrued liabilities	3.3
Other	Prepaid expenses and other current assets	0.7	Other accrued liabilities	—
Total derivatives not designated as hedging instruments		\$42.7		\$17.2
Total derivatives		\$51.8		\$17.2

The location and amount of gains (losses) from derivatives not designated as hedging instruments in our Condensed Consolidated Statements of Earnings were as follows:

Derivatives Not Designated as Hedging Instruments	Location in Condensed Consolidated Statement of Earnings of Gain (Loss) Recognized on Derivatives	Amount of Gain (Loss) Recognized on Derivatives in Condensed Consolidated Statement of Earnings for the Thirteen Weeks Ended	
		November 23, 2014	November 24, 2013
Commodity contracts	Cost of goods sold	\$(23.8)	(13.5)
Foreign exchange contracts	Cost of goods sold	0.9	2.1
Foreign exchange contracts	Selling, general and administrative expense	2.4	0.6
Total loss from derivative instruments not designated as hedging instruments		\$(20.5)	\$(10.8)

Derivatives Not Designated as Hedging Instruments	Location in Condensed Consolidated Statement of Earnings of Gain (Loss) Recognized on Derivatives	Amount of Gain (Loss) Recognized on Derivatives in Condensed Consolidated Statement of Earnings for the Twenty-six Weeks Ended	
		November 23, 2014	November 24, 2013
Commodity contracts	Cost of goods sold	\$(62.4)	(29.0)
Foreign exchange contracts	Cost of goods sold	1.2	0.9

Foreign exchange contracts	Selling, general and administrative expense	2.6	1.2
Interest rate contracts	Selling, general and administrative expense	(1.4) —
Total loss from derivative instruments not designated as hedging instruments		\$(60.0)	\$(26.9)

As of November 23, 2014, our open commodity contracts had a notional value (defined as notional quantity times market value per notional quantity unit) of \$1.3 billion and \$1.2 billion for purchase and sales contracts, respectively.

As of May 25, 2014, our open commodity contracts had a notional value of \$1.4 billion for both purchase and sales contracts. The notional amount of our foreign currency forward and cross currency swap contracts as of November 23, 2014 and May 25, 2014 was \$105.2 million and \$170.1 million, respectively.

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

At November 23, 2014, the maximum amount of loss due to the credit risk of the counterparties, had the counterparties failed to perform according to the terms of the contracts, was \$20.7 million.

9. SHARE-BASED PAYMENTS

For the second quarter and first half of fiscal 2015, we recognized total stock-based compensation expense (including stock options, restricted stock units, cash-settled restricted stock units, and performance shares) of \$18.2 million and \$35.0 million, respectively. For the second quarter and first half of fiscal 2014, we recognized total stock-based compensation expense of continuing and discontinued operations of \$16.8 million and \$34.2 million, respectively. Included in the total stock-based compensation expense for the second quarter and first half of fiscal 2015 was \$0.3 million and \$0.6 million, respectively, related to stock options granted by a subsidiary in the subsidiary's shares to the subsidiary's employees. The expense for these stock options was \$1.9 million and \$2.1 million, respectively, for the second quarter and first half of fiscal 2014. For the first half of fiscal 2015, we granted 0.9 million restricted stock units at a weighted average grant date price of \$31.34, 0.9 million cash-settled restricted stock units at a weighted average grant date price of \$30.89, 3.8 million stock options at a weighted average exercise price of \$30.89, and 0.4 million performance shares at a weighted average grant date price of \$30.89.

Performance shares are granted to selected executives and other key employees with vesting contingent upon meeting various Company-wide performance goals. The performance goals for the performance period ending in fiscal 2015 are based upon our operating cash flow return on operations, a measure of operating cash flow as a percentage of invested capital, and revenue growth, each measured over a defined performance period. The performance goals for the performance periods ending in fiscal 2016 and 2017 are based upon our earnings before interest, taxes, depreciation, and amortization ("EBITDA") return on capital, and revenue growth, each measured over the defined performance period. The awards actually earned will range from zero to two hundred twenty percent of the targeted number of performance shares for each of the performance periods. A payout equal to 25% of approved target incentive is required to be paid out if we achieve a threshold level of cash flow return on operations for the performance period ending in fiscal 2015, and a threshold level of EBITDA return on capital for the performance periods ending in fiscal 2016 and 2017. Awards, if earned, will be paid in shares of our common stock. Subject to limited exceptions set forth in the performance share plan, any shares earned will be distributed at the end of the performance period. The value of the performance shares is adjusted based upon the market price of our common stock at the end of each reporting period and amortized as compensation expense over the vesting period.

The weighted average Black-Scholes assumptions for stock options granted during the first half of fiscal 2015 were as follows:

Expected volatility (%)	17.44
Dividend yield (%)	3.12
Risk-free interest rate (%)	1.62
Expected life of stock option (years)	4.92

The weighted average value of stock options granted during the first half of fiscal 2015 was \$3.28 per option based upon a Black-Scholes methodology.

10. EARNINGS PER SHARE

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	November 23, 2014	November 24, 2013	November 23, 2014	November 24, 2013
Net income available to ConAgra Foods, Inc. common stockholders:				
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	\$20.7	\$206.7	\$129.7	\$337.2
Income (loss) from discontinued operations, net of tax, attributable to ConAgra Foods, Inc. common stockholders	(10.7	) 42.0	362.6	55.8
Net income attributable to ConAgra Foods, Inc. common stockholders	\$10.0	\$248.7	\$492.3	\$393.0
Less: Increase in redemption value of noncontrolling interests in excess of earnings allocated	0.5	0.4	0.9	0.8
Net income available to ConAgra Foods, Inc. common stockholders	\$9.5	\$248.3	\$491.4	\$392.2
Weighted average shares outstanding:				
Basic weighted average shares outstanding	425.7	421.1	424.8	421.0
Add: Dilutive effect of stock options, restricted stock unit awards, and other dilutive securities	5.1	5.9	5.2	6.5
Diluted weighted average shares outstanding	430.8	427.0	430.0	427.5

For the second quarter and first half of fiscal 2015, there were 5.1 million and 5.6 million stock options outstanding, respectively, that were excluded from the computation of shares contingently issuable upon exercise because exercise prices exceeded the average market value of our common stock during the period. For the second quarter and first half of fiscal 2014, there were 3.6 million and 2.6 million stock options outstanding, respectively, that were excluded from the calculation.

11. INVENTORIES

The major classes of inventories were as follows:

	November 23, 2014	May 25, 2014
Raw materials and packaging	\$694.5	\$498.6
Work in process	189.9	118.6
Finished goods	1,522.0	1,335.3
Supplies and other	126.5	124.5
Total	\$2,532.9	\$2,077.0

12. INCOME TAXES

Our income tax expense from continuing operations for the second quarter of fiscal 2015 and 2014 was \$84.0 million and \$106.0 million, respectively. Income tax expense from continuing operations for the first half of fiscal 2015 and 2014 was \$126.5 million and \$134.9 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) from continuing operations was approximately 76% and 48% for the second quarter and first half of fiscal 2015, respectively, and 34% and 28% for the second quarter and first half of fiscal 2014, respectively. The increase in the effective tax rate in the second quarter and first half of fiscal 2015 is primarily due to an impairment of goodwill that is largely non-deductible for tax purposes. This was partially offset by the implementation of a new position we are

taking on a tax credit that applies to prior year tax returns, which resulted in an \$8.0 million reduction in income tax expense in the second quarter of fiscal 2015.

The amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$76.0 million as of November 23, 2014 and \$84.9 million as of May 25, 2014. Included in the balance was \$8.2 million as of both November 23, 2014 and May 25, 2014, for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Any associated interest and penalties imposed would affect the tax rate. The gross unrecognized tax benefits excluded

related liabilities for gross interest and penalties of \$27.1 million and \$29.6 million as of November 23, 2014 and May 25, 2014, respectively.

The net amount of unrecognized tax benefits at November 23, 2014 and May 25, 2014 that, if recognized, would impact the Company's effective tax rate was \$44.7 million and \$50.8 million, respectively. Recognition of these tax benefits would have a favorable impact on the Company's effective tax rate.

We estimate that it is reasonably possible that the amount of gross unrecognized tax benefits will decrease by up to \$19.6 million over the next twelve months due to various federal, state, and foreign audit settlements and the expiration of statutes of limitations.

13. CONTINGENCIES

In fiscal 1991, we acquired Beatrice Company ("Beatrice"). As a result of the acquisition of Beatrice and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, our condensed consolidated post-acquisition financial statements reflect liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by us. The litigation includes suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products Company, a wholly owned subsidiary of the Company ("ConAgra Grocery Products"), and the Company as alleged successors to W. P. Fuller Co., a lead paint and pigment manufacturer owned and operated by Beatrice until 1967. Although decisions favorable to us have been rendered in Rhode Island, New Jersey, Wisconsin, and Ohio, we remain a defendant in active suits in Illinois and California. The Illinois suit seeks class-wide relief for reimbursement of costs associated with the testing of lead levels in blood. In California, a number of cities and counties joined in a consolidated action seeking abatement of the alleged public nuisance. On September 23, 2013, a trial of the California case concluded in the Superior Court of California for the County of Santa Clara, and on January 27, 2014, the court entered Judgment (the "Judgment") against ConAgra Grocery Products and two other defendants, which orders the creation of a California abatement fund in the amount of \$1.15 billion. Liability is joint and several. The Company believes ConAgra Grocery Products did not inherit any liabilities of W. P. Fuller Co. The Company will continue to vigorously defend itself in this case and has appealed the Judgment to The Court of Appeal of the State of California Sixth Appellate District. The Company expects the appeal process will last several years. The absence of any linkage between ConAgra Grocery Products and W. P. Fuller Co. is a critical issue that the Company will continue to advance throughout the appeals process. It is not possible to estimate exposure in this case or the remaining case in Illinois (which is based on different legal theories). If ultimately necessary, the Company will look to its insurance policies for coverage; its carriers are on notice. However, the Company cannot absolutely assure that the final resolution of this matter will not have a material adverse effect on its financial condition, results of operations, or liquidity.

The environmental proceedings associated with Beatrice include litigation and administrative proceedings involving Beatrice's status as a potentially responsible party at 37 Superfund, proposed Superfund, or state-equivalent sites. These sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. Beatrice has paid or is in the process of paying its liability share at 33 of these sites. Reserves for these matters have been established based on our best estimate of the undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required clean-up, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The reserves for Beatrice-related environmental matters totaled \$57.0 million as of November 23, 2014, a majority of which relates to the Superfund and state-equivalent sites referenced above. We expect expenditures for Beatrice-related environmental matters to continue for up to 18 years.

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

We guarantee certain leases resulting from the 2002 divestiture of our fresh beef and pork operations. The remaining terms of these arrangements are less than a year and the maximum amount of future payments we have guaranteed was \$4.1 million as of November 23, 2014.

We are a party to various potato supply agreements. Under the terms of certain such potato supply agreements, we have guaranteed repayment of short-term bank loans of the potato suppliers, under certain conditions. At November 23, 2014, the amount of supplier loans we have effectively guaranteed was \$17.8 million. We have not established a liability for these guarantees, as we have determined that the likelihood of our required performance under the guarantees is remote.

We were a party to a supply agreement with an onion processing company where we had guaranteed, under certain conditions, repayment of a \$25.0 million secured loan (the "Secured Loan") of this onion products supplier to the supplier's lender. During the fourth quarter of fiscal 2012, we received notice from the lender that the supplier had defaulted on the Secured Loan and we exercised our option to purchase the Secured Loan from the lender for \$40.8 million, thereby assuming first-priority secured rights to the underlying collateral

for the amount of the Secured Loan, and cancelling our guarantee. The supplier filed for bankruptcy during the fourth quarter of fiscal 2012 and during the second quarter of fiscal 2013, we acquired ownership and all rights to the underlying collateral, consisting of agricultural land and an onion processing facility. During the third quarter of fiscal 2013, we recognized an impairment charge of \$10.2 million in our Commercial Foods segment to reduce the carrying amount of these assets to their estimated fair value based upon updated appraisals. During the second quarter of fiscal 2014, we recognized an additional impairment charge of \$8.9 million in our Commercial Foods segment to reduce the carrying amount of the processing facility to its estimated fair value based upon expected sales proceeds. In the fourth quarter of fiscal 2014, we sold the land and recognized a gain of \$5.1 million in our Commercial Foods segment. Based on our estimate of the value of the processing facility, we expect to recover the remaining carrying value through our sale of this facility.

Federal income tax credits were generated related to our sweet potato production facility in Delhi, Louisiana. Third parties invested in certain of these income tax credits. We have guaranteed these third parties the face value of these income tax credits over their statutory lives, through fiscal 2017, in the event that the income tax credits are recaptured or reduced. The face value of the income tax credits was \$26.7 million as of November 23, 2014. We believe the likelihood of the recapture or reduction of the income tax credits is remote, and therefore we have not established a liability in connection with this guarantee.

We are a party to a number of lawsuits and claims arising out of our ongoing business operations. Among these, there are lawsuits, claims, and matters related to the February 2007 recall of our peanut butter products. Among the matters outstanding during fiscal 2014 related to the peanut butter recall is an ongoing investigation by the U.S. Attorney's office in Georgia and the Consumer Protection Branch of the Department of Justice. In fiscal 2011, we received formal requests from the U.S. Attorney's office in Georgia seeking a variety of records and information related to the operations of our peanut butter manufacturing facility in Sylvester, Georgia. These requests relate to the June 2007 execution of a search warrant at our facility following the February 2007 recall. During fiscal 2013 and 2012, we recognized charges of \$7.5 million and \$17.5 million, respectively, in connection with this matter. We have been and continue to be engaged in ongoing discussions with the U.S. Attorney's office and the Department of Justice in regard to the investigation. We are pursuing a negotiated resolution, which we believe will likely involve a misdemeanor criminal disposition under the Food, Drug & Cosmetics Act. During the fourth quarter of fiscal 2014, we reduced our accrual by \$6.7 million. During the first quarter of fiscal 2015, we further reduced our accrual by \$5.8 million and further reduced it by \$1.2 million in the second quarter of fiscal 2015, based on ongoing discussions with the U.S. Attorney's office and the Department of Justice. After taking into account liabilities recorded for these matters, we believe the ultimate resolution of this matter should not have a material adverse effect on our financial conditions, results of operations, or liquidity.

In addition to the investigation noted above, we were previously engaged in litigation against an insurance carrier to recover our settlement expenditures and defense costs associated with the peanut butter recall. During fiscal 2009, we recognized a charge of \$24.8 million in connection with the insurance coverage dispute. During the fourth quarter of fiscal 2013, we reached a settlement on the insurance dispute, pursuant to which we were paid \$25.0 million, in addition to retaining the defense costs previously reimbursed to us. We recognized the \$25.0 million in income as a reduction to selling, general and administrative ("SG&A") expenses during fiscal 2013. In the fourth quarter of fiscal 2014, we received an additional reimbursement of settlement and defense costs of \$3.5 million related to this matter, which was recognized in income as a reduction to SG&A expenses.

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

the basis that the suit was filed prematurely. In the third quarter of fiscal 2014, Jacobs Engineering Group Inc. refiled its action for indemnity. We will continue to defend this action vigorously. Any exposure in this case is expected to be limited to the applicable insurance deductible.

In April 2010, an accidental explosion occurred at our flour milling facility in Chester, Illinois. Two employees of a subcontractor and one employee of the primary contractor, Westside Salvage ("Westside"), on the site at the time of the accident suffered injuries. Suit was initiated against Westside and the Company for personal injury claims. During the first quarter of fiscal 2013, a jury in Federal Court sitting in East St. Louis, Illinois, returned a verdict against the Company and Westside and in favor of the three employees. The verdict was in the amount of \$77.5 million in compensatory damages apportioned between the Company and Westside and \$100.0 million in punitive damages against the Company. Post-trial motions were filed by the Company and the trial court reduced the punitive award by approximately \$7 million. We filed an appeal with the Seventh Federal Circuit Court of Appeals on the verdict and the damages in the third quarter of fiscal 2013. The appeal was argued in the second quarter of fiscal 2014 and on September 9, 2014, the Court of Appeals rendered a unanimous decision reversing the judgment against the Company in its entirety. The plaintiffs petitioned the Court of Appeals for a rehearing en banc, which was denied. The decision is potentially subject to further appeal. In the event of an appeal to the U.S. Supreme Court, we will defend this action vigorously and any exposure from an adverse ruling on appeal is expected to be limited to the applicable insurance deductible.

We are a party to an agreement with a third party wherein we have rights to the use of certain intellectual property designed to assist the Company in improving the operating efficiency of its manufacturing operations. In connection with this agreement, the Company is required to make yearly payments of \$2.5 million to the third party. Beginning in fiscal 2015, the Company may be required to make additional payments to the third party based upon a contractual formula for manufacturing efficiencies achieved in applicable production facilities. Our best estimate of the required payment for fiscal 2015 is \$6.0 million. If additional operating efficiencies are attained in future periods, the amount of the payments due to the third party could increase materially. The obligation to make such payments is contingent upon achievement of such operating efficiencies and accordingly, it is not currently possible to determine the ultimate amount of such payments. This agreement requires such contractual payments to occur each year from fiscal 2015 through March of fiscal 2021.

After taking into account liabilities recognized for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on our financial condition, results of operations, or liquidity. It is reasonably possible that a change in one of the estimates of the foregoing matters may occur in the future and, as noted, while unlikely, the lead patent matter could result in a material final judgment. Costs of legal services associated with the foregoing matters are recognized in earnings as services are provided.

14. PENSION AND POSTRETIREMENT BENEFITS

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

Components of pension benefit and other postretirement benefit costs included:

	Pension Benefits			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 23,	November 24,	November 23,	November 24,
	2014	2013	2014	2013
Service cost	\$22.2	\$22.2	\$44.3	\$44.5
Interest cost	40.3	37.8	80.7	75.6
Expected return on plan assets	(67.0)	(63.2)	(134.0)	(126.4)
Amortization of prior service cost	0.9	0.9	1.8	1.8
Special termination benefits	—	—	6.9	—
Benefit cost — Company plans	(3.6)	(2.3)	(0.3)	(4.5)
Pension benefit cost — multi-employer plans	3.5	3.6	6.7	6.7
Total benefit cost	\$(0.1)	\$1.3	\$6.4	\$2.2
	Postretirement Benefits			
	Thirteen weeks ended		Twenty-six weeks ended	
	November 23,	November 24,	November 23,	November 24,
	2014	2013	2014	2013
Service cost	\$0.2	\$0.2	\$0.3	\$0.4
Interest cost	2.5	2.4	5.0	4.8
Amortization of prior service benefit	(1.9			