CONAGRA FOODS INC /DE/
Form 10-K
July 19, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended May 29, 2011

or

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

Commission File No. 1-7275

CONAGRA FOODS, INC.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code (402) 240-4000

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ   Accelerated filer o

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

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

The aggregate market value of the voting common stock of ConAgra Foods, Inc. held by non-affiliates on November 26, 2010 (the last business day of the Registrant s most recently completed second fiscal quarter) was approximately $9,415,620,630 based upon the closing sale price on the New York Stock Exchange on such date.

At June 26, 2011, 410,795,628 common shares were outstanding.

Documents incorporated by reference are listed on page 1.

Documents Incorporated by Reference

Portions of the Registrant s definitive Proxy Statement for the Registrant s 2011 Annual Meeting of Stockholders (the 2011 Proxy Statement) are incorporated into Part III.

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PART I

ITEM 1. BUSINESS

a) General Development of Business

ConAgra Foods, Inc. (ConAgra Foods , Company , we , us , or our) is one of North America s leading food comp with consumer brands in 97% of America s households sold in grocery, convenience, mass merchandise and club stores. ConAgra Foods also has a strong business-to-business presence, supplying frozen potato and sweet potato products, as well as other vegetable, spice, and grain products to a variety of well-known restaurants, foodservice operators, and commercial customers.

The Company began as a flour-milling company and entered other commodity-based businesses. Over time, through various acquisitions and divestitures, we significantly changed our portfolio of businesses, focusing on adding branded, value-added opportunities, while strategically divesting commodity-based businesses to become one of North America s leading food companies. Executing this strategy involved the acquisition over time of a number of brands such as *Banquet*®, *Chef Boyardee*®, *PAM*®, *Marie Callenders*®, and *Alexia*®. More notable divestitures have included a dehydrated garlic, onion, capsicum and fresh vegetable operation, a trading and merchandising business, packaged meat and cheese operations, a poultry business, beef and pork businesses, and various other businesses. For more information about our more recent acquisitions and divestitures, see Acquisitions and Divestitures below. Our development over time has also been aided by innovation and organic growth. Recent successes include: *Healthy Choice*® Café Steamers™, *Healthy Choice*® Fresh Mixers™, *Healthy Choice*® All Natural Entrées, *Marie Callender s*® Pasta Al Dente, and others.

We are focused on growing our core operations, expanding into adjacent categories, and increasing our presence in private label and international operations. Our core operations include the strategic product groups of convenient meals, potatoes, snacks, meal enhancers, and specialty items. We are also focused on sustainable sales and profit growth with strong and improving returns on invested capital. As part of continually strengthening our operating foundation, our major profit-enhancing initiatives have centered on and continue to include:

- Enhancing our portfolio by developing through innovation and acquiring of products that resonate with consumers;
- Implementing high-impact, insights-based marketing programs;
- Partnering strategically with customers to improve linkage, strengthen relationships, and capitalize on growth opportunities;
- Improving trade spending effectiveness and pricing analytics;
- Achieving cost savings throughout the supply chain with continuous efficiency improvement programs; and
- Implementing efficiency initiatives throughout the selling, general, and administrative functions.

The Company s growth, efficiency, and portfolio improvement initiatives continue to be implemented with high standards of customer service, product safety, and product quality.

We were initially incorporated as a Nebraska corporation in 1919 and were reincorporated as a Delaware corporation in December 1975.

b) Financial Information about Reporting Segments

We report our operations in two reporting segments: Consumer Foods and Commercial Foods. The contributions of each reporting segment to net sales, operating profit, and the identifiable assets are set forth in Note 22 *Business Segments and Related Information* to the consolidated financial statements.

c) Narrative Description of Business

We compete throughout the food industry and focus on adding value for customers who operate in the retail food, foodservice, and ingredients channels.

Our operations, including our reporting segments, are described below. Our locations, including distribution facilities, within each reporting segment, are described in Item 2.

Consumer Foods

The Consumer Foods reporting segment includes branded, private label, and customized food products, which are sold in various retail and foodservice channels, principally in North America. The products include a variety of categories (meals, entrées, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

Major brands include: *Alexia*®, *ACT II*®, *Banquet*®, *Blue Bonnet*®, *Chef Boyardee*®, *DAVID*®, *Egg Beaters*®, *Healthy Choice*®, *Hebrew National*®, *Hunt s*®, *Marie Callender s*®, *Orville Redenbacher s*®, *PAM*®, *Peter Pan*®, *Reddi-wip*®, *Slim Jim*®, *Snack Pack*®, *Swiss Miss*®, *Van Camp s*®, and *Wesson*®.

Commercial Foods

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

Unconsolidated Equity Investments

We have a number of unconsolidated equity investments. Significant affiliates produce and market potato products for retail and foodservice customers.

Acquisitions

In June 2011, subsequent to the end of our fiscal 2011, we purchased the *Marie Callender s*® brand trademark from Marie Callender Pie Shops, Inc.

During fiscal 2011, we acquired the assets of American Pie, LLC, a manufacturer of frozen fruit pies, thaw and serve pies, fruit cobblers, and pie crusts under the licensed *Marie Callender s*® and *Claim Jumper*® trade names, as well as frozen dinners, pot pies, and appetizers under the *Claim Jumper*® trade name. This business is included in the Consumer Foods segment.

During fiscal 2010, we acquired Elan Nutrition, Inc., a privately held formulator and manufacturer of private label snack and nutrition bars. This business is included in the Consumer Foods segment.

During fiscal 2009, we acquired Saroni Sugar & Rice, Inc., a distribution company included in the Commercial Foods segment.

Also during fiscal 2009, we acquired a 49.99% interest in Lamb Weston BSW, LLC (Lamb Weston BSW or the venture), a potato processing joint venture with Ochoa Ag Unlimited Foods, Inc. (Ochoa). This venture is considered a variable interest entity for which we are the primary beneficiary and is consolidated in our financial statements. This business is included in the Commercial Foods segment.

Divestitures

In May 2011, we completed the sale of substantially all of the assets of our frozen handhelds operations. We reflected the results of these operations as discontinued operations for all periods presented. The assets of the discontinued frozen handhelds operations have been reclassified as assets held for sale within our consolidated balance sheets for all periods presented prior to divestiture.

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In the first quarter of fiscal 2011, we completed the sale of substantially all of the assets of *Gilroy Foods & Flavors*™ dehydrated garlic, onion, capsicum and *Controlled Moisture*™, *GardenFrost*®, *Redi-Made*™, and fresh vegetable operations. We reflected the results of these operations as discontinued operations for all periods presented. The assets and liabilities of the discontinued *Gilroy Foods & Flavors*™ dehydrated vegetable business have been reclassified as assets and liabilities held for sale within our consolidated balance sheets for the period prior to divestiture.

During fiscal 2010, we completed the divestiture of the *Fernando s*® foodservice brand. We reflected the results of these operations as discontinued operations for all periods presented.

During fiscal 2009, we completed the sale of our *Pemmican*® beef jerky business. Due to our continuing involvement with the business through providing sales and distribution support to the buyer, the results of operations of the *Pemmican*® business have not been reclassified as discontinued operations.

During fiscal 2009, we completed the sale of our trading and merchandising operations (previously principally reported as the Trading and Merchandising segment). We reflected the results of these operations as discontinued operations for all periods presented.

General

The following comments pertain to both of our reporting segments.

ConAgra Foods is a food company that operates in many sectors of the food industry, with a significant focus on the sale of branded and value-added consumer products, as well as foodservice products and ingredients. We also manufacture and sell private label products. We use many different raw materials, the bulk of which are commodities. The prices paid for raw materials used in our products generally reflect factors such as weather, commodity market fluctuations, currency fluctuations, tariffs, and the effects of governmental agricultural programs. Although the prices of raw materials can be expected to fluctuate as a result of these factors, we believe such raw materials to be in adequate supply and generally available from numerous sources. We have faced increased costs for many of our significant raw materials, packaging, and energy inputs in the last twelve months. We seek to mitigate the higher input costs through productivity and pricing initiatives, and through the use of derivative instruments used to economically hedge a portion of forecasted future consumption.

We experience intense competition for sales of our principal products in our major markets. Our products compete with widely advertised, well-known, branded products, as well as private label and customized products. Some of our competitors are larger and have greater resources than we have. We compete primarily on the basis of quality, value, customer service, brand recognition, and brand loyalty.

Demand for certain of our products may be influenced by holidays, changes in seasons, or other annual events.

We manufacture primarily for stock and fill customer orders from finished goods inventories. While at any given time there may be some backlog of orders, such backlog is not material in respect to annual net sales, and the changes of backlog orders from time to time are not significant.

Our trademarks are of material importance to our business and are protected by registration or other means in the United States and most other markets where the related products are sold. Some of our products are sold under brands that have been licensed from others. We also actively develop and maintain a portfolio of patents, although no single patent is considered material to the business as a whole. We have proprietary trade secrets, technology, know-how, processes, and other intellectual property rights that are not registered.

Many of our facilities and products are subject to various laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, the Occupational Safety and Health Administration, and other federal, state, local, and foreign governmental agencies relating to the quality and safety of products, sanitation, safety and health matters, and environmental control. We believe that we comply with such laws and regulations in all material respects, and that continued compliance with such regulations will not have a material effect upon capital expenditures, earnings, or our competitive position.

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 18%, 18%, and 17% of consolidated net sales for fiscal 2011, 2010, and 2009, respectively.

At May 29, 2011, ConAgra Foods and its subsidiaries had approximately 23,200 employees, primarily in the United States. Approximately 48% of our employees are parties to collective bargaining agreements. Of the employees subject to collective bargaining agreements, approximately 40% are parties to collective bargaining agreements that are scheduled to expire during fiscal 2012. We believe that our relationships with employees and their representative organizations are good.

Research and Development

We employ processes at our principal manufacturing locations that emphasize applied research and technical services directed at product improvement and quality control. In addition, we conduct research activities related to the development of new products. Research and development expense was $81 million, $78 million, and $78 million in fiscal 2011, 2010, and 2009, respectively.

EXECUTIVE OFFICERS OF THE REGISTRANT AS OF JULY 19, 2011

Name	Title & Capacity	Age	Year First Appointed an Executive Officer
Gary M. Rodkin	President and Chief Executive Officer	59	2005
John F. Gehring	Executive Vice President, Chief Financial Officer	50	2004
Colleen R. Batcheler	Executive Vice President, General Counsel and Corporate Secretary	37	2008
André J. Hawaux	President, Consumer Foods	50	2006
Brian L. Keck	Executive Vice President and Chief Administrative Officer	58	2010
Patrick D. Linehan	Senior Vice President, Corporate Controller	42	2009
Paul T. Maass	President, Commercial Foods	45	2010
Scott E. Messel	Senior Vice President, Treasurer and Assistant Corporate Secretary	52	2001

Gary M. Rodkin joined ConAgra Foods as Chief Executive Officer in October 2005. Prior to joining ConAgra Foods, he was Chairman and Chief Executive Officer of PepsiCo Beverages and Foods North America (a division of PepsiCo, Inc., a global snacks and beverages company) from February 2003 to June 2005. He was named President and Chief Executive Officer of PepsiCo Beverages and Foods North America in 2002. Prior to that, he was President and Chief Executive Officer of Pepsi-Cola North America from 1999 to 2002, and President of Tropicana North America from 1995 to 1998.

John F. Gehring has served ConAgra Foods as Executive Vice President, Chief Financial Officer since January 2009. Mr. Gehring joined ConAgra Foods as Vice President of Internal Audit in 2002, became Senior Vice President in 2003, and most recently served as Senior Vice President and Corporate Controller from July 2004 to January 2009. He served as ConAgra Foods interim Chief Financial Officer from October 2006 to November 2006. Prior to joining ConAgra Foods, Mr. Gehring was a partner at Ernst & Young LLP (an accounting firm) from 1997 to 2001.

Colleen R. Batcheler joined ConAgra Foods in June 2006 as Vice President, Chief Securities Counsel and Assistant Corporate Secretary. In September 2006, she was appointed Corporate Secretary, in February 2008, she was named Senior Vice President, General Counsel and Corporate Secretary, and in September 2009, she was named Executive

Vice President, General Counsel and Corporate Secretary. From 2003 until joining ConAgra Foods, Ms. Batcheler was Vice President and Corporate Secretary of Albertson s, Inc. (a retail food and drug chain).

André J. Hawaux joined ConAgra Foods in November 2006 as Executive Vice President, Chief Financial Officer. Prior to joining ConAgra Foods, Mr. Hawaux served as Senior Vice President, Worldwide Strategy & Corporate Development, PepsiAmericas, Inc. (a manufacturer and distributor of a broad portfolio of beverage products) from May 2005. Previously, from 2000 until May 2005, Mr. Hawaux served as Vice President and Chief Financial Officer for Pepsi-Cola North America (a division of PepsiCo, Inc.). Mr. Hawaux serves as a member of the Board of Trustees of the Southern New Hampshire University.

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Brian L. Keck joined ConAgra Foods in September 2010 as Executive Vice President and Chief Administrative Officer. In this role, he is responsible for Human Resources, Facilities and Real Estate, and Communication & External Relations. Prior to ConAgra Foods, Mr. Keck was President and Chief Operating Officer of Macy s Inc. s Midwest Division where he was responsible for sales, customer service, store operations, finance, distribution, human resources, IT, design and construction, and community affairs. Prior to that, Mr. Keck held multiple senior leadership responsibilities at the May Department Stores Company (acquired by Macy s) in both operating divisions and corporate-wide roles. From 2000 to 2005, he led May s Human Resources function after having served as chairman of Meier & Frank Department Stores, a division of May.

Patrick D. Linehan has served ConAgra Foods as Senior Vice President, Corporate Controller since January 2009. Mr. Linehan joined ConAgra Foods in August 1999 and held various positions of increasing responsibility, including Director, Financial Reporting, Vice President, Assistant Corporate Controller, and most recently as Vice President, Finance from September 2006 until January 2009. Mr. Linehan briefly left ConAgra Foods to serve as Controller of a financial institution in April 2006 and returned to ConAgra Foods in September 2006. Prior to joining ConAgra Foods, Mr. Linehan was with Deloitte LLP (an accounting firm).

Paul T. Maass was named President of the Commercial Foods business for ConAgra Foods in October 2010. Mr. Maass joined ConAgra Foods in 1988 as a commodity merchandiser in the trading business and quickly progressed through several roles at ConAgra Foods. In 2003, Mr. Maass was named President and General Manager of ConAgra Mills. He assumed responsibility for J.M. Swank in 2007 and for Spicetec Flavors & Seasonings in 2010.

Scott E. Messel joined ConAgra Foods in August 2001 as Vice President and Treasurer, and in July 2004 was named to his current position.

OTHER SENIOR OFFICERS OF THE REGISTRANT AS OF JULY 19, 2011

Name	Title & Capacity	Age
Albert D. Bolles	Executive Vice President, Research, Quality & Innovation	53
Douglas A. Knudsen	President, ConAgra Foods Sales	56
Gregory L. Smith	Executive Vice President, Supply Chain	47
Joan K. Chow	Executive Vice President, Chief Marketing Officer	51
Allen J. Cooper	Vice President, Internal Audit	47
Nicole B. Theophilus	Senior Vice President, Human Resources	41

Albert D. Bolles joined ConAgra Foods in March 2006 as Executive Vice President, Research & Development, and Quality. He was named to his current position in June 2007. Prior to joining the Company, he was Senior Vice President, Worldwide Research and Development for PepsiCo Beverages and Foods from 2002 to 2006. From 1993 to 2002, he was Senior Vice President, Global Technology and Quality for Tropicana Products Incorporated.

Douglas A. Knudsen joined ConAgra Foods in 1977. He was named to his current position in May 2006. He previously served the Company as President, Retail Sales Development from 2003 to 2006, President, Retail Sales from 2001 to 2003, and President, Grocery Product Sales from 1995 to 2001.

Gregory L. Smith joined ConAgra Foods in August 2001 as Vice President, Manufacturing. He previously served the Company as President, Grocery Foods Group, Executive Vice President, Operations, Grocery Foods Group, and Senior Vice President, Supply Chain. He was named to his current position in December 2007. Prior to joining ConAgra Foods, he served as Vice President, Supply Chain for United Signature Foods from 1999 to 2001 and Vice

President for VDK Frozen Foods from 1996 to 1999. Before that, he was with The Quaker Oats Company for eleven years in various operations, supply chain, and marketing positions.

Joan K. Chow joined ConAgra Foods in February 2007 as Executive Vice President, Chief Marketing Officer. Prior to joining ConAgra Foods, she served Sears Holding Corporation (retailing) as Senior Vice President and Chief Marketing Officer, Sears Retail from July 2005 until January 2007 and as Vice President, Marketing Services from April 2005 until July 2005. From 2002 until April 2005, Ms. Chow served Sears, Roebuck and Co. as Vice President, Home Services Marketing.

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Allen J. Cooper joined ConAgra Foods in March 2003 and has held various finance and internal audit leadership positions with the Company, including Director, Internal Audit from 2003 until 2005; Vice President, Finance from 2005 until 2006; Vice President, Supply Chain Finance from 2006 until 2007; Senior Director, Finance; and most recently as Senior Director, Internal Audit. He was named to his current position in February 2009. Prior to joining the Company, he was with Ernst & Young LLP (an accounting firm).

Nicole B. Theophilus joined ConAgra Foods in April 2006 as Vice President, Chief Employment Counsel. In 2008, in addition to her legal duties, she assumed the role of Vice President, Human Resources for Commercial Foods. In November 2009, she was named to her current position. Prior to joining ConAgra Foods, she was an attorney and partner with Blackwell Sanders Peper Martin LLP (a law firm) from 1999 until 2006.

d) Foreign Operations

Foreign operations information is set forth in Note 22 *Business Segments and Related Information* to the consolidated financial statements.

e) Available Information

We make available, free of charge through the Our Company Investors Financial Reports & Filings link on our Internet website at http://www.conagrafoods.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. We use our Internet website, through the Our Company Investors link, as a channel for routine distribution of important information, including news releases, analyst presentations, and financial information.

We have also posted on our website our (1) Corporate Governance Principles, (2) Code of Conduct, (3) Code of Ethics for Senior Corporate Officers, and (4) Charters for the Audit Committee, Nominating and Governance Committee, and Human Resources Committee. Shareholders may also obtain copies of these items at no charge by writing to: Corporate Secretary, ConAgra Foods, Inc., One ConAgra Drive, Omaha, NE, 68102-5001.

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ITEM 1A. RISK FACTORS

The following risks and uncertainties could affect our operating results and should be considered in evaluating us. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, performance, or financial condition in the future.

Deterioration of general economic conditions could harm our business and results of operations.

Our business and results of operations may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions.

Volatility in financial markets and deterioration of national and global economic conditions could impact our business and operations in a variety of ways, including as follows:

- consumers may shift purchases to lower-priced private label or other value offerings, or may forego certain purchases altogether during economic downturns, which may adversely affect the results of our Consumer Foods operations;

- decreased demand in the restaurant business, particularly casual and fine dining, may adversely affect our Commercial Foods operations;

- volatility in commodity and other input costs could substantially impact our result of operations;

- volatility in the equity markets or interest rates could substantially impact our pension costs and required pension contributions; and

- it may become more costly or difficult to obtain debt or equity financing to fund operations or investment opportunities, or to refinance our debt in the future, in each case on terms and within a time period acceptable to us.

Increases in commodity costs may have a negative impact on profits.

We use many different commodities such as wheat, corn, oats, soybeans, beef, pork, poultry, and energy. Commodities are subject to price volatility caused by commodity market fluctuations, supply and demand, currency fluctuations, and changes in governmental agricultural programs. Commodity price increases will result in increases in raw material costs and operating costs. We may not be able to increase our product prices and achieve cost savings that fully offset these increased costs; and increasing prices may result in reduced sales volume and profitability. We have experience in hedging against commodity price increases; however, these practices and experience reduce, but do not eliminate, the risk of negative profit impacts from commodity price increases.

Increased competition may result in reduced sales or profits.

The food industry is highly competitive, and increased competition can reduce our sales due to loss of market share or the need to reduce prices to respond to competitive and customer pressures. Competitive pressures also may restrict our ability to increase prices, including in response to commodity and other cost increases. In most product categories, we compete not only with other widely advertised branded products, but also with private label products that are generally sold at lower prices. A strong competitive response from one or more of our competitors to our marketplace efforts, or a consumer shift towards private label offerings, could result in us reducing pricing, increasing marketing or other expenditures, or losing market share. Our profits could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

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The sophistication and buying power of our customers could have a negative impact on profits.

Many of our customers, such as supermarkets, warehouse clubs, and food distributors, have consolidated in recent years and consolidation is expected to continue. These consolidations and the growth of supercenters have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and operating with reduced inventories. These customers may also in the future use more of their shelf space, currently used for our products, for their private label products. We continue to implement initiatives to counteract these pressures. However, if the larger size of these customers results in additional negotiating strength and/or increased private label competition, our profitability could decline.

We must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences, including concerns of consumers regarding health and wellness, obesity, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preference, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in marketing and innovation will be less successful. Similarly, demand for our products could be affected by consumer concerns regarding the health effects of ingredients such as sodium, trans fats, sugar, processed wheat, or other product ingredients or attributes.

If we do not achieve the appropriate cost structure in the highly competitive food industry, our profitability could decrease.

Our success depends in part on our ability to achieve the appropriate cost structure and operate efficiently in the highly competitive food industry, particularly in an environment of volatile input costs. We continue to implement profit-enhancing initiatives that impact our supply chain and general and administrative functions. These initiatives are focused on cost-saving opportunities in procurement, manufacturing, logistics, and customer service, as well as general and administrative overhead levels. If we do not continue to effectively manage costs and achieve additional efficiencies, our competitiveness and our profitability could decrease.

We may be subject to product liability claims and product recalls, which could negatively impact our profitability.

We sell food products for human consumption, which involves risks such as product contamination or spoilage, product tampering, and other adulteration of food products. We may be subject to liability if the consumption of any of our products causes injury, illness, or death. In addition, we will voluntarily recall products in the event of contamination or damage. We have issued recalls and have from time to time been and currently are involved in lawsuits relating to our food products. A significant product liability judgment or a widespread product recall may negatively impact our sales and profitability for a period of time depending on product availability, competitive reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

We may not successfully complete proposed acquisitions or divestitures or integrate acquired businesses.

From time to time, we evaluate acquisition candidates that may strategically fit our business objectives. If we are unable to complete acquisitions or to successfully integrate and develop acquired businesses, our financial results could be materially and adversely affected. In addition, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets. We may not be able to complete desired or proposed divestitures on terms favorable to us. Gains or losses on the sales of, or lost operating income from, those businesses may affect our profitability. Moreover, we may incur asset impairment charges related to acquisitions or divestitures that reduce our profitability.

Our acquisition or divestiture activities may present financial, managerial, and operational risks. Those risks include diversion of management attention from existing businesses, difficulties integrating or separating personnel and financial and other systems, effective and immediate implementation of control environment processes across our employee population, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these factors could affect our product sales, financial condition and results of operations.

If we fail to comply with the many laws applicable to our business, we may face lawsuits or incur significant fines and penalties.

Our facilities and products are subject to many laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, the Occupational Safety and Health Administration, and other federal, state, local, and foreign governmental agencies relating to the processing, packaging, storage, distribution, advertising, labeling, quality, and safety of food products, the health and safety of our employees, and the protection of the environment. Our failure to comply with applicable laws and regulations could subject us to lawsuits, administrative penalties and injunctive relief, civil remedies, including fines, injunctions, and recalls of our products. Our operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity. Changes in applicable laws or regulations or evolving interpretations thereof, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, may result in increased compliance costs, capital expenditures, and other financial obligations for us, which could affect our profitability or impede the production or distribution of our products, which could affect our net operating revenues.

Our information technology resources must provide efficient connections between our business functions, or our results of operations will be negatively impacted.

Each year we engage in billions of dollars of transactions with our customers and vendors. Because the amount of dollars involved is so significant, our information technology resources must provide connections among our marketing, sales, manufacturing, logistics, customer service, and accounting functions. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure and to maintain the related automated and manual control processes, we could be subject to billing and collection errors, business disruptions, or damage resulting from security breaches. We began implementing new financial and operational information technology systems in fiscal 2008 and placed systems into production during fiscal 2008, 2009, 2010, and 2011. If future implementation problems are encountered, our results of operations could be negatively impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in Omaha, Nebraska. In addition, certain shared service centers are located in Omaha, Nebraska, including a product development facility, supply chain center, business services center, and an information technology center. The general offices and location of principal operations are set forth in the following summary of our locations. We also lease many sales offices mainly in the United States.

We maintain a number of stand-alone distribution facilities. In addition, there is warehouse space available at substantially all of our manufacturing facilities.

Utilization of manufacturing capacity varies by manufacturing plant based upon the type of products assigned and the level of demand for those products. Management believes that our manufacturing and processing plants are well maintained and are generally adequate to support the current operations of the business.

We own most of the manufacturing facilities. However, a limited number of plants and parcels of land with the related manufacturing equipment are leased. Substantially all of our transportation equipment and forward-positioned distribution centers and most of the storage facilities containing finished goods are leased or operated by third parties. Information about the properties supporting our two business segments follows.

CONSUMER FOODS REPORTING SEGMENT

General offices in Omaha, Nebraska, Naperville, Illinois, Miami, Florida, Toronto, Canada, Mexico City, Mexico, San Juan, Puerto Rico, Shanghai, China, Panama City, Panama, and Bogota, Colombia.

As of July 19, 2011, thirty-nine domestic manufacturing facilities in Arkansas, California, Georgia, Illinois, Indiana, Iowa, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Ohio, Pennsylvania, Tennessee, and Wisconsin. Three international manufacturing facilities in Canada and Mexico (one 50% owned) and one in Arroyo Dulce, Argentina.

COMMERCIAL FOODS REPORTING SEGMENT

Domestic general, marketing, and administrative offices in Omaha, Nebraska, Eagle, Idaho, and Tri-Cities, Washington. International general and merchandising offices in Beijing, China, Shanghai, China, Tokyo, Japan, and Singapore.

As of July 19, 2011, forty-one domestic production facilities in Alabama, California, Colorado, Florida, Georgia, Idaho, Illinois, Louisiana, Minnesota, Nebraska, New Jersey, Ohio, Oregon, Pennsylvania, Texas, and Washington; one international production facility in Guaynabo, Puerto Rico; one manufacturing facility in Taber, Canada; one 50% owned manufacturing facility in each of Colorado, Minnesota, Washington, and the United Kingdom; one 67% owned manufacturing facility in Puerto Rico; and three 50% owned manufacturing facilities in the Netherlands.

ITEM 3. LEGAL PROCEEDINGS

In fiscal 1991, we acquired Beatrice Company (Beatrice). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, our consolidated post-acquisition financial statements reflect liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by us. The litigation includes suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products and the Company as alleged successors to W. P. Fuller Co., a lead paint and pigment manufacturer owned and operated by Beatrice until 1967. Although decisions favorable to us have been rendered in Rhode Island, New Jersey, Wisconsin, and Ohio, we remain a defendant in active suits in Illinois and California. The Illinois suit seeks class-wide relief in the form of medical monitoring for elevated levels of lead in blood. In California, a number of cities and counties have joined in a consolidated action seeking abatement of the alleged public nuisance.

The environmental proceedings include litigation and administrative proceedings involving Beatrice s status as a potentially responsible party at 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 34 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 $68.5 million as of May 29, 2011, a majority of which relates to the Superfund and state-equivalent sites referenced above. The reserve for Beatrice-related environmental matters reflects a reduction in pre-tax expense of $15.4 million made in the third quarter of fiscal 2010 due to favorable regulatory developments at one of the sites. We expect expenditures for Beatrice-related environmental matters to continue for up to 19 years.

We are a party to a number of lawsuits and claims arising out of the operation of our business, including lawsuits and claims related to the February 2007 recall of our peanut butter products and litigation we initiated against an insurance carrier to recover our settlement expenditures and defense costs. We recognized a charge of $24.8 million during the third quarter of fiscal 2009 in connection with the disputed coverage with this insurance carrier. During the second quarter of fiscal 2010, a Delaware state court rendered a decision on certain matters in our claim for the disputed coverage favorable to the insurance carrier. We appealed this decision and, during the fourth quarter of fiscal 2011, we received a favorable opinion related to our defense costs and the claim for disputed coverage was remanded to the state court. We continue to vigorously pursue our claim for the disputed coverage. Subsequent to the end of the third quarter of 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. The Company believes these requests are related to the previously disclosed June 2007 execution of a search warrant at the facility following the February 2007 recall of our peanut butter products. The Company is cooperating with officials in regard to the requests.

On June 9, 2009, an accidental explosion occurred at our manufacturing facility in Garner, North Carolina (the Garner accident). This facility was the primary production facility for our *Slim Jim*® branded meat snacks. On June 13, 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, 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. We intend to defend this action vigorously. During the fourth quarter of fiscal 2011, we settled our property and business interruption claims related to the Garner accident with our insurance providers.

We are a party to several lawsuits concerning the use of diacetyl, a butter flavoring ingredient that was added to our microwave popcorn until late 2007. The cases are primarily consumer personal injury suits claiming respiratory illness allegedly due to exposures to vapors from microwaving popcorn. Another case involved a putative class action contending that our packaging information with respect to diacetyl is false and misleading. Through the third quarter of fiscal 2011, we have received a favorable verdict, summary judgment ruling, and two dismissals in connection with these suits, and the class action motion in the packaging suit was denied. The verdict and the favorable summary judgment ruling were appealed and the summary judgment was affirmed in the fourth quarter of fiscal 2011. We do not believe these cases possess merit and continue to vigorously defend them.

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.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange where it trades under the ticker symbol: CAG. At June 26, 2011, there were approximately 23,500 shareholders of record.

Quarterly sales price and dividend information is set forth in Note 23 *Quarterly Financial Data (Unaudited)* to the consolidated financial statements and incorporated herein by reference.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table presents the total number of shares of common stock purchased during the fourth quarter of fiscal 2011, the average price paid per share, the number of shares that were purchased as part of a publicly

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announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased under the Program (1)
February 28 through March 27, 2011	5,965,929	23.15	5,965,929	$ 129,284,000
March 28 through April 24, 2011				$ 129,284,000
April 25 through May 29, 2011				$ 129,284,000
Total Fiscal 2011 Fourth Quarter	5,965,929	23.15	5,965,929	$ 129,284,000

(1) Pursuant to publicly announced share repurchase programs from December 2003, we have repurchased approximately 146.7 million shares at a cost of $3.4 billion through May 29, 2011. During the third quarter of fiscal 2011, the Board of Directors approved a $554.2 million increase to the share repurchase program. The current program has no expiration date.

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ITEM 6. SELECTED FINANCIAL DATA

For the Fiscal Years Ended May	2011	2010	2009	2008	2007
Dollars in millions, except per share amounts					
Net sales (1)	$ 12,303.1	$ 12,014.9	$ 12,348.6	$ 11,173.1	$ 10,102.2
Income from continuing operations (1)	$ 830.3	$ 742.6	$ 615.2	$ 489.7	$ 448.3
Net income attributable to ConAgra Foods, Inc.	$ 817.0	$ 725.8	$ 978.4	$ 930.6	$ 764.6
Basic earnings per share:					
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders (1)	$ 1.92	$ 1.68	$ 1.36	$ 1.00	$ 0.89
Net income attributable to ConAgra Foods, Inc. common stockholders	$ 1.90	$ 1.63	$ 2.16	$ 1.91	$ 1.52
Diluted earnings per share:					
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders (1)	$ 1.90	$ 1.66	$ 1.35	$ 1.00	$ 0.88
Net income attributable to ConAgra Foods, Inc. common stockholders	$ 1.88	$ 1.62	$ 2.15	$ 1.90	$ 1.51
Cash dividends declared per share of common stock	$ 0.89	$ 0.79	$ 0.76	$ 0.75	$ 0.72
At Year-End					
Total assets	$ 11,408.7	$ 11,738.0	$ 11,073.3	$ 13,682.5	$ 11,835.5
Senior long-term debt (noncurrent)	$ 2,674.4	$ 3,030.5	$ 3,259.5	$ 3,180.4	$ 3,211.7
Subordinated long-term debt (noncurrent)	$ 195.9	$ 195.9	$ 195.9	$ 200.0	$ 200.0

(1) Amounts exclude the impact of discontinued operations of the packaged meats and cheese operations, the *Knott s Berry Farm*® operations, the trading and merchandising operations, the *Fernando s*® operations, the *Gilroy Foods & Flavors*tm operations, and the frozen handhelds operations.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to provide a summary of significant factors relevant to our financial performance and condition. The discussion should be read together with our consolidated financial statements and related notes in Item 8, Financial Statements and Supplementary Data. Results for the fiscal year ended May 29, 2011 are not necessarily indicative of results that may be attained in the future.

Executive Overview

ConAgra Foods, Inc. (NYSE: CAG) is one of North America s leading food companies, with brands in 97% of America s households. Consumers find *Banquet®, Chef Boyardee®, Egg Beaters®, Healthy Choice®, Hebrew National®, Hunt s®, Marie Callender s®, Orville Redenbacher s®, PAM®*, *Peter Pan®*, *Reddi-wip®*, and many other ConAgra Foods brands in grocery, convenience, mass merchandise, and club stores. We also have a strong business-to-business presence, supplying frozen potato and sweet potato products, as well as other vegetable, spice, and grain products to a variety of well-known restaurants, foodservice operators, and commercial customers.

Fiscal 2011 diluted earnings per share were $1.88, including $1.90 per diluted share of income from continuing operations and a loss of $0.02 per diluted share from discontinued operations. Fiscal 2010 diluted earnings per share were $1.62, including income from continuing operations of $1.66 per diluted share and a loss of $0.04 per diluted share from discontinued operations. Several significant items affect the comparability of year-over-year results of continuing operations (see *Items Impacting Comparability* below).

Items Impacting Comparability

Items of note impacting comparability for fiscal 2011 included the following:

Reported within Continuing Operations

- a gain of $105 million ($66 million after-tax) from the settlement of an insurance claim related to the Garner accident,
- charges totaling $56 million ($35 million after-tax) under our restructuring plans, and
- a gain of $25 million ($16 million after-tax) from the receipt, as payment in full of all principal and interest due on the remaining payment-in-kind notes received in connection with the divestiture of the trading and merchandising operations in fiscal 2009 (the Notes), in advance of the scheduled maturity dates.

Reported within Discontinued Operations

- Losses totaling $22 million ($14 million after-tax) due to the write-down of the carrying value of the assets of a small business.

Items of note impacting comparability for fiscal 2010 included the following:

Reported within Continuing Operations

- charges totaling $40 million ($25 million after-tax) under our restructuring plans, charges totaling $33 million ($21 million after-tax) related to an impairment of a partially completed production facility,

a benefit of $15 million ($9 million after-tax) from a favorable adjustment relating to an environmental liability,

charges totaling $14 million ($9 million after-tax) for transaction-related costs associated with securing federal tax benefits related to the Delhi, LA sweet potato production facility,

a gain of $14 million ($9 million after-tax) from the sale of the *Luck s*® brand, and

a benefit of $20 million from a lower-than-planned income tax rate.

Reported within Discontinued Operations

Charges totaling $59 million ($40 million after-tax) primarily representing a write-down of the carrying value of the assets of the Company s discontinued dehydrated vegetable operations.

Settlement of Insurance Claim related to Garner, North Carolina Accident

On June 9, 2009, an accidental explosion occurred at our manufacturing facility in Garner, North Carolina (the Garner accident). This facility was the primary production facility for our *Slim Jim*® branded meat snacks. On June 13, 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.

In the fourth quarter of fiscal 2011, we reached a settlement of this matter with our insurance providers, and we recognized a gain, net of fiscal 2011 expenditures related to this matter, of approximately $105 million.

The costs incurred and insurance recoveries recognized, in fiscal 2011 and 2010, are reflected in our consolidated financial statements, as follows:

	Year Ended May 29, 2011			Year Ended May 30, 2010		
	Consumer Foods	Corporate	Total	Consumer Foods	Corporate	Total
Cost of goods sold:						
Inventory write-downs and other costs	$ 1	$	$ 1	$ 12	$	$ 12
Selling, general and administrative expenses:						
Fixed asset impairments, clean-up costs, etc.	$ 3	$	$ 3	$ 47	$ 3	$ 50
Insurance recoveries recognized	(109)		(109)	(58)		(58)
Total selling, general and administrative expenses	$ (106)	$	$ (106)	$ (11)	$ 3	$ (8)
Net loss (gain)	$ (105)	$	$ (105)	$ 1	$ 3	$ 4

The amounts in the table above exclude actual lost profits due to the interruption of the meat snacks business in the periods presented, but do reflect the recovery of the related business interruption insurance claim in the fourth quarter of fiscal 2011.

Restructuring Plans

In February 2011, our Board of Directors approved a plan recommended by executive management designed to optimize our manufacturing and distribution networks (the Network Optimization Plan , which we previously referred to as the 2011 plan). The Network Optimization Plan consists of projects that involve, among other things, the exit of certain manufacturing facilities, the disposal of underutilized manufacturing assets, and actions designed to optimize our distribution network. Implementation of the plan is expected to continue through fiscal 2013 and is intended to improve the efficiency of our manufacturing operations and reduce costs.

In connection with the Network Optimization Plan, we currently estimate we will incur aggregate pre-tax costs of approximately $55 million, including approximately $22 million of cash charges. In fiscal 2011, we recognized charges of $31 million in relation to the Network Optimization Plan.

In March 2010, we announced a plan, authorized by our Board of Directors, related to the long-term production of our meat snack products. The plan provides for the closure of our meat snacks production facility in Garner, North Carolina, and the movement of production to our existing facility in Troy, Ohio. Since the Garner accident, the Troy facility has been producing a portion of our meat snack products. Upon substantial completion of the plan s implementation by the end of fiscal 2011, the Troy facility has become our primary meat snacks production facility.

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In May 2010, we made a decision to consolidate certain administrative functions from Edina, Minnesota, to Naperville, Illinois. The transition of these functions was completed in the first half of fiscal 2011. This plan, together with the plan to move production of our meat snacks from Garner, North Carolina to Troy, Ohio, are collectively referred to as the 2010 restructuring plan (the 2010 plan). In connection with the 2010 plan, we expect to incur pre-tax cash and non-cash charges of $68 million. In fiscal 2011 and 2010, we recognized charges of approximately $26 million and $39 million, respectively, in relation to these plans.

As part of a focus on cost reduction, we previously carried out a restructuring plan focused on streamlining our supply chain and reducing selling, general, and administrative costs (the 2006-2008 restructuring plan). As part of the 2006-2008 restructuring plan, we began construction of a new production facility in fiscal 2007. As a result of an updated assessment of manufacturing strategies and the related impact on this partially completed production facility, we decided to divest this facility. Accordingly, in fiscal 2010, we recognized a non-cash impairment charge of $33 million, representing a write-down of the carrying value of the assets to fair value based on anticipated proceeds from the sale. This charge is reflected in selling, general and administrative expenses within the Consumer Foods segment.

The Network Optimization Plan and the 2010 plan are collectively referred to as our restructuring plans.

Management continues to evaluate our manufacturing footprint and potential opportunities to generate cost savings. If such opportunities are identified, the Network Optimization Plan will be amended accordingly, and this could lead to significant additional restructuring expenses.

Acquisitions

In June 2010, we acquired the assets of American Pie, LLC, a manufacturer of frozen fruit pies, thaw and serve pies, fruit cobblers, and pie crusts under the licensed *Marie Callender s*® and *Claim Jumper*® trade names, as well as frozen dinners, pot pies, and appetizers under the *Claim Jumper*® trade name. We paid $131 million in cash plus assumed liabilities for this business. This business is included in the Consumer Foods segment.

During fiscal 2010, we completed the acquisition of Elan Nutrition (Elan), a privately held formulator and manufacturer of private label snack and nutrition bars, for approximately $103 million in cash. This business is included in the Consumer Foods segment.

In June 2011, we purchased various *Marie Callender s*® brand trademarks from Marie Callender Pie Shops, Inc., for approximately $58 million.

Divestitures

In July 2010, we completed the sale of substantially all of the assets of *Gilroy Foods & Flavors*™ dehydrated garlic, onion, capsicum and *Controlled Moisture*™, *GardenFrost*®, *Redi-Made*™, and fresh vegetable operations for $246 million in cash. Based on our estimate of proceeds from the sale of this business, we recognized impairment and related charges totaling $59 million ($40 million after-tax) in the fourth quarter of fiscal 2010. We reflected the results of these operations as discontinued operations for all periods presented.

In May 2011, we completed the sale of the assets of our frozen handhelds operations for approximately $10 million. We recognized charges totaling $22 million ($14 million after-tax) relating to the impairment of the long-lived assets of the business. We reflected the results of these operations as discontinued operations for all periods presented.

Capital Allocation

During fiscal 2011, we received $554 million as payment in full of all principal and interest due on the remaining Notes received in connection with the divestiture of the trading and merchandising operations in fiscal 2009, in advance of the scheduled maturity dates.

During fiscal 2011, we repurchased approximately 36 million shares of our common stock for $825 million, and we repaid the entire principal balance of $248 million of our 7.875% senior notes, which were due September 15, 2010. During fiscal 2010, we repurchased 4 million shares of our common stock for $100 million.

During fiscal 2011, we paid dividends of $375 million.

SEGMENT REVIEW

We report our operations in two reporting segments: Consumer Foods and Commercial Foods.

Consumer Foods

The Consumer Foods reporting segment includes branded and private label food products that are sold in various retail and foodservice channels, principally in North America. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

In May 2011, we completed the sale of the assets of our frozen handhelds operations for approximately $10 million. We recognized charges totaling $22 million ($14 million after-tax) relating to the impairment of the long-lived assets of the business. We reflected the results of these operations as discontinued operations for all periods presented.

In February 2010, we completed the sale of our *Luck s*® brand for proceeds of approximately $22 million in cash, resulting in a pre-tax gain of $14 million ($9 million after-tax), reflected in selling, general and administrative expenses.

In June 2009, we completed the divestiture of the *Fernando s*® foodservice business for proceeds of $6 million in cash. We reflected the results of these operations as discontinued operations for all periods presented. The assets and liabilities of the divested *Fernando s*® business have been reclassified as assets and liabilities held for sale within our consolidated balance sheets for all periods prior to divestiture.

Commercial Foods

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

As discussed above, we reflected the results of the *Gilroy Foods & Flavors*™ operations as discontinued operations for all periods presented. The assets and liabilities of the divested *Gilroy Foods & Flavors*™ dehydrated vegetable business have been reclassified as assets and liabilities held for sale within our consolidated balance sheets for all periods presented prior to divestiture.

<u>Presentation of Derivative Gains (Losses) for Economic Hedges of Forecasted Cash Flows in Segment Results</u>

Derivatives used to manage commodity price risk and foreign currency risk are not designated for hedge accounting treatment. We believe these derivatives provide economic hedges of certain forecasted transactions. As such, these derivatives (except those related to our milling operations, see Note 19 to our Consolidated Financial Statements) are recognized at fair market value with realized and unrealized gains and losses recognized in general corporate expenses. The gains and losses are subsequently recognized in the operating results of the reporting segments in the period in which the underlying transaction being economically hedged is included in earnings.

The following table presents the net derivative gains (losses) from economic hedges of forecasted commodity consumption and the foreign currency risk of certain forecasted transactions, under this methodology (in millions):

	Fiscal Year Ended May 29, 2011	Fiscal Year Ended May 30, 2010
Net derivative gains (losses) incurred	$ 35.1	$ (16.9)
Less: Net derivative gains (losses) allocated to reporting segments	0.6	(19.3)
Net derivative gains recognized in general corporate expenses	$ 34.5	$ 2.4
Net derivative gains (losses) allocated to Consumer Foods	$ 3.6	$ (14.3)
Net derivative losses allocated to Commercial Foods	(3.0)	(5.0)
Net derivative gains (losses) included in segment operating profit	$ 0.6	$ (19.3)

Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify gains of $34 million and losses of $2 million to segment operating results in fiscal 2012 and 2013 and thereafter, respectively. Amounts allocated, or to be allocated, to segment operating results during fiscal 2011 and thereafter include net losses of $3 million recognized within corporate expense prior to fiscal 2011.

2011 vs. 2010

Net Sales
($ in millions)

Reporting Segment	Fiscal 2011 Net Sales	Fiscal 2010 Net Sales	% Increase/ (Decrease)
Consumer Foods	$ 8,002	$ 7,940	1%
Commercial Foods	4,301	4,075	6%
Total	$ 12,303	$ 12,015	2%

Overall, our net sales increased $288 million to $12.3 billion in fiscal 2011, reflecting a 1% increase in our Consumer Foods segment and a 6% increase in our Commercial Foods segment relative to results in fiscal 2010.

Consumer Foods net sales for fiscal 2011 were $8.0 billion, an increase of 1% as compared to fiscal 2010. Results reflected a 2% benefit from acquisitions, net of divestitures, a 1% decrease in volume from existing businesses, and essentially unchanged net pricing and mix. The decrease in volume from existing businesses reflected highly competitive pricing for some products, as well as lower consumption in certain product categories. The net pricing impacts for fiscal 2011 were not significant, reflecting the fact that price increases in the second half of the year were offset by pricing reductions earlier in the year related to competitive pressures.

Sales of products associated with some of our most significant brands, including *Blue Bonnet®, Marie Callender s®, Peter Pan®*, *Reddi-wip®*, *Ro*Tel®, Slim Jim®, Snack Pack®*, and *Wesson®,* grew in fiscal 2011. Significant brands that experienced sales declines in fiscal 2011 included *ACT II®*, *Banquet®*, *Chef Boyardee®*, *Egg Beaters®, Healthy Choice®, Hunt s®*, *Libby s®*, *Orville Redenbacher s®, PAM®*, *Swiss Miss®,* and *Van Camp s ®*.

Commercial Foods net sales were $4.3 billion in fiscal 2011, an increase of $226 million, or 6% compared to fiscal 2010. Net sales in our flour milling business were approximately $107 million higher in fiscal 2011 than in fiscal 2010, principally reflecting the pass-through of higher wheat prices. Results also reflected a $98 million increase in sales in our *Lamb Weston®* specialty potato products business, reflecting higher volume of approximately 4% and flat net pricing and mix. The increase in sales volume included significant growth in sales of sweet potato products.

Selling, General and Administrative Expenses (includes General Corporate Expense) (SG&A)

SG&A expenses totaled $1.51 billion for fiscal 2011, a decrease of $308 million, or 17%, compared to fiscal 2010.

Selling, general and administrative expenses for fiscal 2011 reflected the following:

- a decrease in incentive compensation expense of $130 million,
- a net benefit of $105 million in connection with the settlement of insurance claims, net of expenses incurred, related to the Garner accident,
- charges totaling $35 million in connection with our restructuring plans,
- a decrease in advertising and promotion expense of $37 million,
- an increase in salaries and labor expense of $26 million,
- a gain of $25 million from the receipt, as payment in full of all principal and interest due on the remaining Notes received in connection with the divestiture of the trading and merchandising operations in fiscal 2009, in advance of the scheduled maturity dates,
- a decrease in charitable donations of $13 million,
- a decrease in stock-based compensation expense of $11 million,
- an increase in self-insured medical expense of $10 million, and
- a decrease in property, sales, and use taxes of $10 million.

Selling, general and administrative expenses for fiscal 2010 included the following:

- charges totaling $36 million in connection with the 2010 plan, consisting of charges related to our decision to move manufacturing activities in Garner, North Carolina to Troy, Ohio, and our decision to move administrative functions in Edina, Minnesota to Naperville, Illinois,
- a charge of $33 million in connection with the impairment of a partially completed production facility,
- a benefit of $15 million associated with a favorable adjustment to an environmental-related liability,
- transaction-related costs of $14 million associated with securing federal tax benefits related to the Delhi, LA sweet potato production facility (the associated income tax benefits will be recognized in future periods),
- a $14 million gain on the sale of the *Luck s®* brand, and
- a net benefit of $8 million, representing SG&A expenses associated with the Garner accident that were more than offset by insurance recoveries (related charges of $12 million were recognized in cost of goods sold).

Operating Profit

(Earnings before general corporate expense, interest expense (net), income taxes, and equity method investment earnings)
($ in millions)

Reporting Segment	**Fiscal 2011 Operating Profit**	**Fiscal 2010 Operating Profit**	**% Increase/ (Decrease)**
Consumer Foods	$ 1,144	$ 1,110	3%
Commercial Foods	505	539	(6)%

Consumer Foods operating profit increased $34 million in fiscal 2011 versus the prior year to $1.14 billion. Gross profits were $156 million lower in fiscal 2011 than in fiscal 2010 driven by the impact of higher commodity input costs that were not fully offset by the benefit of price increases and supply chain cost savings initiatives. Other items that significantly impacted Consumer Foods operating profit in fiscal 2011 included:

a net benefit of $105 million in connection with the settlement of insurance claims, net of expenses incurred, related to the Garner accident,

a decrease in incentive compensation expense of $48 million,

a decrease in advertising and promotion expense of $42 million,

charges totaling $45 million in connection with the Company s restructuring plans, and

the impact of foreign currencies, including related economic hedges, resulted in an increase of operating profit of approximately $27 million in fiscal 2011, as compared to fiscal 2010.

Items that significantly impacted Consumer Foods operating profit in fiscal 2010 included:

charges totaling $36 million in connection with our restructuring plans,

a charge of $33 million in connection with the impairment of a partially completed production facility, and

a $14 million gain on the sale of the *Luck s*® brand.

Commercial Foods operating profit decreased $34 million in fiscal 2011 versus the prior year to $505 million. Gross profits in our *Lamb Weston*® specialty potato business were negatively impacted in fiscal 2011 by significant increases in input costs which more than offset the benefit of increased sales volumes and a higher quality potato crop than that which was processed in fiscal 2010 and the first half of fiscal 2011. Gross profits in our flour milling business improved in fiscal 2011 due to effective management of margins in a volatile wheat market, which more than offset the decrease in sales volumes. SG&A expenses were lower in the Commercial Foods segment in fiscal 2011 as compared to fiscal 2010, largely due to a $13 million decrease in incentive compensation expense. The Commercial Foods segment also recognized charges of $11 million in fiscal 2011 in connection with our restructuring plans.

Interest Expense, Net

In fiscal 2011, net interest expense was $178 million, an increase of $17 million, or 11%, from fiscal 2010. Included in net interest expense was $42 million and $85 million of interest income in fiscal 2011 and 2010, respectively, principally from the Notes received in connection with the divestiture of the trading and merchandising business in June 2008. Interest expense in fiscal 2011 also reflected a net benefit of $13 million primarily resulting from interest rate swaps used to effectively convert the interest rates of certain outstanding debt instruments from fixed to variable (this hedge was terminated in fiscal 2011) and the benefit of the repayment of $248 million of debt in September 2010.

During fiscal 2010, we received $115 million as payment in full of all principal and interest due on a portion of the Notes, in advance of the scheduled maturity date. In December 2010, we received $554 million as payment in full of all principal and interest due on the remaining Notes, in advance of the scheduled maturity dates. We expect net interest expense to be significantly higher in fiscal 2012 than in fiscal 2011, reflecting lower interest income.

Income Taxes

Our income tax expense was $421 million and $361 million in fiscal 2011 and 2010, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was 34% for fiscal 2011 and 33% in fiscal 2010. The lower effective tax rate in fiscal 2010 was reflective of favorable changes in estimates and audit settlements, as well as certain income tax credits and deductions identified in fiscal 2010 that related to prior periods. These benefits were offset, in part, by unfavorable tax consequences of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.

We expect our effective tax rate in fiscal 2012, exclusive of any unusual transactions or tax events, to be approximately 34%.

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Equity Method Investment Earnings

We include our share of the earnings of certain affiliates based on our economic ownership interest in the affiliates. Significant affiliates produce and market potato products for retail and foodservice customers. Our share of earnings from our equity method investments was $26 million ($6 million in the Consumer Foods segment and $20 million in the Commercial Foods segment) and $22 million ($5 million in the Consumer Foods segment and $17 million in the Commercial Foods segment) in fiscal 2011 and 2010, respectively. Equity method investment earnings in the Commercial Foods segment reflected improving market conditions in a foreign potato processing venture and continued difficult market conditions for our domestic potato ventures.

Results of Discontinued Operations

Our discontinued operations generated after-tax losses of $12 million and $19 million in fiscal 2011 and 2010, respectively. In fiscal 2011, we completed the sale of the assets of a small frozen foods business for approximately $10 million. We recognized after-tax impairment charges totaling $14 million in connection with this sale. In fiscal 2010, we decided to divest our dehydrated vegetable operations. As a result of this decision, we recognized an after-tax impairment charge of $40 million in fiscal 2010, representing a write-down of the carrying value of the related long-lived assets to fair value, based on the anticipated sales proceeds. The sale of this business for $246 million in cash was completed in July 2010. Operating results of discontinued operations in fiscal 2011 include the favorable resolution of a foreign tax matter relating to a divested business. Operating results of discontinued operations in fiscal 2010 include charges related to certain legal and environmental matters of divested businesses.

Earnings Per Share

Our diluted earnings per share in fiscal 2011 were $1.88 (including earnings of $1.90 per diluted share from continuing operations and a loss of $0.02 per diluted share from discontinued operations). Our diluted earnings per share in fiscal 2010 were $1.62 (including earnings of $1.66 per diluted share from continuing operations and losses of $0.04 per diluted share from discontinued operations). See *Items Impacting Comparability* above as several significant items affected the comparability of year-over-year results of operations.

2010 vs. 2009

Net Sales
($ in millions)

Reporting Segment	**Fiscal 2010 Net Sales**	**Fiscal 2009 Net Sales**	**% Increase/ (Decrease)**
Consumer Foods	$ 7,940	$ 7,904	%
Commercial Foods	4,075	4,445	(8)%
Total	$ 12,015	$ 12,349	(3)%

Overall, our net sales decreased $334 million to $12.02 billion in fiscal 2010, primarily driven by fiscal 2009 including 53 weeks, as well as lower flour milling net sales in fiscal 2010 resulting from lower underlying wheat costs passed on to customers. This decrease was partially offset by improved pricing and mix in the Consumer Foods segment and the *Lamb Weston*® specialty potato products business in the Commercial Foods segment. Volume reflected a benefit of approximately 2% in fiscal 2009 due to the inclusion of the additional week of results.

Consumer Foods net sales for fiscal 2010 were $7.94 billion, basically flat as compared to fiscal 2009. Results reflected flat volume and essentially unchanged net pricing and mix. Volume reflected a benefit of approximately 2% in fiscal 2009 due to the inclusion of the additional week of results. Excluding the impact of the additional week, volume increased 2% in fiscal 2010, reflecting successful innovation and marketing.

Sales of products associated with some of our other most significant brands, including *Chef Boyardee®, Healthy Choice®, Hunt s®, Marie Callender s®, Orville Redenbacher s®*, *Reddi-wip*®, and *Snack Pack*® grew in fiscal 2010. Sales of *Blue Bonnet*® and *Wesson*® declined by 19% and 7%, respectively, in fiscal 2010, as compared to fiscal 2009, largely due to the impact of passing through lower vegetable oil costs. Other significant brands whose

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products experienced sales declines in fiscal 2010 include *ACT II*®, *Banquet*®, *Egg Beaters*®, *Kid Cuisine*®, *Libby s*®, *PAM*®, and *Slim Jim*®.

Commercial Foods net sales were $4.08 billion in fiscal 2010, a decrease of $370 million, or 8%, compared to fiscal 2009. Net sales in our flour milling business were approximately $330 million lower in fiscal 2010 than in fiscal 2009, principally reflecting the pass-through of lower wheat prices. Results also reflected a slight decrease in sales in our *Lamb Weston*® specialty potato products business, reflecting lower volume of approximately 2%, partially offset by increased pricing. Volume reflected a benefit of approximately 2% in fiscal 2009 due to the inclusion of the additional week of results. Excluding the impact of the additional week, volume was essentially unchanged in fiscal 2010, as compared to fiscal 2009.

SG&A Expenses (includes General Corporate Expense) (SG&A)

SG&A expenses totaled $1.82 billion for fiscal 2010, an increase of 8% compared to fiscal 2009. We estimate that the inclusion of the extra week in the fiscal 2009 results increased SG&A expenses by approximately 2% in that fiscal year.

Selling, general and administrative expenses for fiscal 2010 reflected the following:

- an increase in incentive compensation expense of $99 million,
- charges totaling $36 million in connection with the 2010 plan, consisting of charges related to the Company s decision to move manufacturing activities in Garner, North Carolina to Troy, Ohio, and the Company s decision to move administrative functions in Edina, Minnesota to Naperville, Illinois,
- a charge of $33 million in connection with the impairment of a partially completed production facility,
- an increase in advertising and promotion expense of $29 million,
- an increase in self-insured medical expense of $15 million,
- a benefit of $15 million associated with a favorable adjustment to an environmental-related liability,
- transaction-related costs of $14 million associated with securing federal tax benefits related to the Delhi, LA sweet potato production facility (the associated income tax benefits will be recognized in future periods),
- a $14 million gain on the sale of the *Luck s*® brand,
- increase in stock-based compensation expense of $13 million,
- a decrease in charitable donations of $9 million, and
- a net benefit of $8 million, representing SG&A expenses associated with the Garner accident that were more than offset by insurance recoveries.

Selling, general and administrative expenses for fiscal 2009 reflected the following:

- a charge of $50 million representing the net premium and fees paid to retire certain debt instruments prior to maturity, a charge of $25 million related to a coverage dispute with an insurer,

a gain of $19 million from the sale of the *Pemmican*® brand,

charges related to peanut butter and pot pie recalls of $11 million,

charges of $10 million related to the execution of our restructuring plans, and

$5 million of income, net of direct pass-through costs, for reimbursement of expenses related to transition services provided to the buyers of certain divested businesses.

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

Reporting Segment	Fiscal 2010 Operating Profit	Fiscal 2009 Operating Profit	% Increase/ (Decrease)
Consumer Foods	$ 1,110	$ 946	17%
Commercial Foods	539	542	(1)%

Consumer Foods operating profit increased $164 million in fiscal 2010 versus the prior year to $1.1 billion. Gross profits were $262 million higher in fiscal 2010 than in fiscal 2009 driven by the impact of lower commodity input costs, and the benefit of supply chain cost savings initiatives. Consumer Foods SG&A expenses were higher in fiscal 2010 than in fiscal 2009, reflecting a $34 million increase in incentive compensation expenses and a $22 million increase in advertising and promotion expenses. The Consumer Foods segment recognized a $14 million gain on the sale of the *Luck s*® brand in fiscal 2010. Charges totaling $36 million were recognized in the Consumer Foods segment in fiscal 2010 in connection with the 2010 plan, including charges related to our decision to move manufacturing activities in Garner, North Carolina to Troy, Ohio, and our decision to move administrative functions in Edina, Minnesota to Naperville, Illinois. An additional charge of $33 million was recognized in connection with the impairment of a production facility, as we made a decision to divest the partially completed facility. The Consumer Foods segment recognized a $19 million gain on the sale of the *Pemmican*® brand, incurred costs of product recalls classified as SG&A expense of $11 million, and incurred costs of $8 million in connection with our restructuring plans in fiscal 2009. The impact of foreign currencies, including related economic hedges, resulted in a reduction of operating profit of approximately $9 million in fiscal 2010, as compared to fiscal 2009.

The Garner accident in June 2009 resulted in charges within SG&A totaling $47 million for the impairment of property, plant and equipment, workers compensation, site clean-up, and other related costs in fiscal 2010 (in addition to inventory write-downs and other related costs of $12 million recognized in cost of goods sold). The impact of these charges was offset by insurance recoveries of $58 million in fiscal 2010 for the involuntary conversion of assets. Gross profits from *Slim Jim*® branded products were $25 million and $51 million in fiscal 2010 and 2009, respectively, reflecting the impact of the disruption of production due to the accident.

Commercial Foods operating profit decreased $3 million in fiscal 2010 versus the prior year to $539 million. Improved gross profits in the flour milling business were partially offset by reduced gross profits in the specialty blends and flavorings business and the specialty potato business. Gross profits continued to be negatively impacted by challenging conditions in the foodservice channel as well as high production costs associated with a high cost and poor quality potato crop in our specialty potato business. Commercial Foods SG&A expenses were higher in fiscal 2010 than in fiscal 2009, reflecting a $5 million increase in incentive compensation expenses. Commercial Foods operating profit for fiscal 2009 reflected the benefit of the additional week of operations.

Interest Expense, Net

In fiscal 2010, net interest expense was $160 million, a decrease of $26 million, or 14%, from fiscal 2009. The reduction in net interest expense is primarily the result of increased capitalized interest and increased interest income in fiscal 2010. Interest income includes $83 million and $73 million in fiscal 2010 and 2009, respectively, from the payment-in-kind notes received in June 2008 in connection with the divestiture of our trading and merchandising operations.

Income Taxes

Our income tax expense was $361 million and $317 million in fiscal 2010 and 2009, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was 33% for fiscal 2010 and 34% in fiscal 2009. The lower effective tax rate in fiscal 2010 was reflective of favorable changes in estimates and audit settlements, as well as certain income tax credits and deductions identified in fiscal 2010 that related to prior periods. These benefits were offset, in part, by unfavorable tax consequences of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.

Equity Method Investment Earnings

We include our share of the earnings of certain affiliates based on our economic ownership interest in the affiliates. Significant affiliates produce and market potato products for retail and foodservice customers. Our share of earnings from our equity method investments was $22 million ($5 million in the Consumer Foods segment and $17 million in the Commercial Foods segment) and $24 million ($5 million in the Consumer Foods segment and $19 million in the Commercial Foods segment) in fiscal 2010 and 2009, respectively. Equity method investment earnings in the Commercial Foods segment reflected continued difficult market conditions for our foreign and domestic potato ventures.

Results of Discontinued Operations

Our discontinued operations generated an after-tax loss of $19 million in fiscal 2010 and earnings of $364 million in fiscal 2009. In fiscal 2010, we decided to divest our dehydrated vegetable operations. As a result of this decision, we recognized an after-tax impairment charge of $40 million in fiscal 2010, representing a write-down of the carrying value of the related long-lived assets to fair value, based on the anticipated sales proceeds. In fiscal 2009, we completed the sale of the trading and merchandising operations and recognized an after-tax gain on the disposition of approximately $301 million. In the fourth quarter of fiscal 2009, we decided to sell certain small foodservice brands. The sale of these brands was completed in June 2009. We recognized after-tax impairment charges of $6 million in fiscal 2009, in anticipation of this divestiture.

Earnings Per Share

Our diluted earnings per share in fiscal 2010 were $1.62 (including earnings of $1.66 per diluted share from continuing operations and a loss of $0.04 per diluted share from discontinued operations). Our diluted earnings per share in fiscal 2009 were $2.15 (including earnings of $1.35 per diluted share from continuing operations and $0.80 per diluted share from discontinued operations), respectively. See *Items Impacting Comparability* above as several other significant items affected the comparability of year-over-year results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital

Our primary financing objective is to maintain a prudent capital structure that provides us flexibility to pursue our growth objectives. If necessary, we use short-term debt principally to finance ongoing operations, including our seasonal requirements for working capital (accounts receivable, prepaid expenses and other current assets, and inventories, less accounts payable, accrued payroll, and other accrued liabilities) and a combination of equity and long-term debt to finance both our base working capital needs and our noncurrent assets.

At May 29, 2011, we had a $1.5 billion revolving credit facility with a syndicate of financial institutions, which matures in December 2011. We expect to refinance the facility prior to maturity at terms that will enable us to maintain sufficient liquidity to support our business needs. The facility has historically been used principally as a back-up facility for our commercial paper program. As of May 29, 2011, there were no outstanding borrowings under the facility. We did not draw upon this facility or the commercial paper program during fiscal 2011. Borrowings under the facility bear interest at or below prime rate and may be prepaid without penalty. The facility requires that our consolidated funded debt not exceed 65% of our consolidated capital base, and that our fixed charges coverage ratio be greater than 1.75 to 1.0. As of May 29, 2011, we were in compliance with these financial covenants.

As of the end of fiscal 2011, our senior long-term debt ratings were all investment grade. A significant downgrade in our credit ratings would not affect our ability to borrow amounts under the revolving credit facility, although borrowing costs would increase. A downgrade of our short-term credit ratings would impact our ability to borrow under our commercial paper program by negatively impacting borrowing costs and causing shorter durations, as well as making access to commercial paper more difficult.

In connection with the divestiture of the trading and merchandising operations in fiscal 2009, we received $550 million (face value) of the Notes issued by the purchaser of the divested business. During fiscal 2010, we received $115 million as payment in full of all principal and interest due on a portion of the Notes, in advance of the scheduled maturity date. During fiscal 2011, we received $554 million as payment in full of all principal and interest due on the remaining Notes, in advance of the scheduled maturity dates.

We repurchase our shares of common stock from time to time after considering market conditions and in accordance with repurchase limits authorized by our Board of Directors. In February 2010, our Board of Directors approved a $500 million share repurchase program with no expiration date. We repurchased approximately 4 million shares of our common stock for approximately $100 million under this program in the fourth quarter of fiscal 2010. In December 2010, our Board of Directors increased the Company s share repurchase authorization by $554 million, the amount of the early repayment of the remaining Notes. We repurchased approximately 36 million shares of our common stock for $825 million under this program in fiscal 2011. The Company s total remaining share repurchase authorization was $129 million as of the end of fiscal 2011.

In July 2010, we completed the sale of substantially all of the assets of *Gilroy Foods & Flavors*tm dehydrated garlic, onion, capsicum and *Controlled Moisture*tm, *GardenFrost*®, *Redi-Made*tm, and fresh vegetable operations for $246 million in cash.

On September 15, 2010, we repaid the entire principal balance of $248 million of our 7.875% senior notes, due on that date.

We expect to repay the entire principal balance of $343 million of our 6.75% senior notes, due September 15, 2011, with cash on hand.

Cash Flows

In fiscal 2011, we generated $19 million of cash, which was the net result of $1.35 billion generated from operating activities, $89 million generated from investing activities, $1.43 billion used in financing activities, and an increase of $10 million in cash and cash equivalents due to the effect of changes in foreign currency exchange rates.

Cash generated from operating activities of continuing operations totaled $1.34 billion for fiscal 2011 as compared to $1.43 billion generated in fiscal 2010. Results reflect increased income from continuing operations in fiscal 2011. Improvement in our accounts payable balance largely offset increases in the inventory balance, reflecting the impact of higher commodity costs in our flour milling business. The year-over-year decrease in operating cash flows also reflects higher incentive payments made in fiscal 2011 (earned in fiscal 2010), than those made in fiscal 2010 (related to fiscal 2009 performance). We also contributed $129 million and $123 million to our Company-sponsored pension plans in fiscal 2011 and 2010, respectively. Cash payments of income taxes were $172 million and $291 million in fiscal 2011 and 2010, respectively, reflecting the benefit of changes in certain federal income tax laws that will allow us to defer the payment of a significant amount of income taxes recognized in fiscal 2011 until future years. Fiscal 2011 operating cash flows also reflect the receipt of $142 million of interest due on the remaining Notes received in connection with the divestiture of the trading and merchandising operations in fiscal 2009, and insurance advances of $65 million for reimbursement of out-of-pocket expenses and foregone profits associated with the Garner accident. Cash generated from operating activities of discontinued operations was $12 million and $43 million in fiscal 2011 and 2010, respectively, primarily reflecting income from operations of the discontinued *Gilroy Foods & Flavors*tm dehydrated vegetable business and reduced inventory balances within that business.

Cash used in investing activities of continuing operations totaled $166 million in fiscal 2011 and $352 million in fiscal 2010. Investing activities of continuing operations in fiscal 2011 consisted primarily of capital expenditures of $466 million and acquisitions of businesses and intangibles (including *American Pie*®) totaling $149 million, partially offset by the receipt of $413 million, as payment in full of all amounts due on the remaining Notes received in connection with the divestiture of the trading and merchandising operations in fiscal 2009 (receipt of interest due is reflected in operating cash flows), and sales of property, plant and equipment of $19 million. Investing activities of continuing operations in fiscal 2010 included capital expenditures of $482 million and acquisitions of businesses and intangibles (including Elan) totaling $107 million, partially offset by sales of businesses and brands (including the *Luck s*® brand) of $22 million and sales of property, plant, and equipment of $88 million. Also included in investing activities of continuing operations in fiscal 2010 was a cash inflow of $92 million (of the total receipt of $115 million) representing the payment in full of all principal and interest due on the first tranche of the Notes, in advance of the scheduled maturity date (the remaining $23 million is reflected as cash generated from operating activities of continuing operations), and insurance advances of $35 million for the replacement of property, plant and equipment destroyed in the Garner accident. We generated $255 million of cash from investing activities of discontinued operations in fiscal 2011 from the disposition of the *Gilroy Foods & Flavors*tm dehydrated vegetable business.

Cash used in financing activities totaled $1.43 billion in fiscal 2011, as compared to cash used in financing activities of $405 million in fiscal 2010. During fiscal 2011, we repurchased approximately 36 million shares of our common stock for $825 million, we paid dividends of $375 million, and we decreased our debt by $294 million, including the repayment of the entire principal balance of $248 million of our 7.875% senior notes on September 15, 2010, due on that date, as well as the repayment of $35 million of bank borrowings by our Lamb Weston BSW potato processing venture. During fiscal 2011, we also received net proceeds of $60 million from employees exercising stock options, net of tax payments we made related to issuance of stock awards. During fiscal 2010, we paid dividends of $347 million, we repurchased $100 million of our common stock as part of our share repurchase program, and we reduced our long-term debt by $16 million. During fiscal 2010, we also received net proceeds of $55 million from employees exercising stock options, net of tax payments related to issuance of stock awards.

We estimate our capital expenditures in fiscal 2012 will be approximately $475 million. Management believes that existing cash balances, cash flows from operations, existing credit facilities, and access to capital markets will provide sufficient liquidity to meet our working capital needs, planned capital expenditures, and payment of anticipated quarterly dividends for at least the next twelve months.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements (e.g., leases accounted for as operating leases) where sound business principles warrant their use. We also periodically enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. These are described further in *Obligations and Commitments*, below.

Variable Interest Entities Not Consolidated

We have variable interests in certain 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 consolidated balance sheets, based upon the equity method of accounting. The balance of our investment was $14 million at both May 29, 2011 and May 30, 2010, 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 million and term borrowings from banks of $50 million as of May 29, 2011. 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 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

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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.

OBLIGATIONS AND COMMITMENTS

As part of our ongoing operations, we enter into arrangements that obligate us to make future payments under contracts such as debt agreements, lease agreements, and unconditional purchase obligations (i.e., obligations to transfer funds in the future for fixed or minimum quantities of goods or services at fixed or minimum prices, such as take-or-pay contracts). The unconditional purchase obligation arrangements are entered into in the normal course of business in order to ensure adequate levels of sourced product are available. Of these items, debt and capital lease obligations, which totaled $3.3 billion as of May 29, 2011, were recognized as liabilities in our consolidated balance sheet. Operating lease obligations and unconditional purchase obligations, which totaled approximately $946 million as of May 29, 2011, were not recognized as liabilities in our consolidated balance sheet, in accordance with generally accepted accounting principles.

A summary of our contractual obligations at the end of fiscal 2011 was as follows (including obligations of discontinued operations):

($ in millions) Contractual Obligations	Total	Payments Due by Period Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt	$ 3,236.3	$ 356.7	$ 532.8	$ 76.9	$ 2,269.9
Capital lease obligations	61.8	5.5	9.1	5.2	42.0
Operating lease obligations	367.0	65.5	102.9	66.6	132.0
Purchase obligations	578.5	489.8	40.3	21.8	26.6
Total	$ 4,243.6	$ 917.5	$ 685.1	$ 170.5	$ 2,470.5

The purchase obligations noted in the table above do not reflect open purchase orders of approximately $475 million, some of which are not legally binding. These purchase orders are expected to be settled in the ordinary course of business in less than one year.

We are also contractually obligated to pay interest on our long-term debt and capital lease obligations. The weighted average interest rate of the long-term debt obligations outstanding as of May 29, 2011 was approximately 6.4%.

As part of our ongoing operations, we also enter into arrangements that obligate us to make future cash payments only upon the occurrence of a future event (e.g., guarantees of debt or lease payments of a third party should the third party be unable to perform). In accordance with generally accepted accounting principles, the following commercial commitments are not recognized as liabilities in our consolidated balance sheet. A summary of our commitments, including commitments associated with equity method investments, as of the end of fiscal 2011, is as follows:

($ in millions) Other Commercial Commitments	Total	Amount of Commitment Expiration per Period Less than 1 Year	1-3 Years	3-5 Years	After 5 Years

Guarantees	$	94.1	$	39.7	$	10.9	$	12.0	$	31.5
Other Commitments		0.4		0.4						
Total	$	94.5	$	40.1	$	10.9	$	12.0	$	31.5

In certain limited situations, we will guarantee an obligation of an unconsolidated entity. We guarantee certain leases and other commercial obligations resulting from the 2002 divestiture of our fresh beef and pork operations. The remaining terms of these arrangements do not exceed five years and the maximum amount of future payments we have guaranteed was approximately $13 million, included in the table above, as of May 29, 2011.

We have also guaranteed the performance of the divested business with respect to a hog purchase contract. The hog purchase contract requires the divested fresh beef and pork business to purchase a minimum of approximately

1.2 million hogs annually through 2014. The contract stipulates minimum price commitments, based in part on market prices, and in certain circumstances also includes price adjustments based on certain inputs.

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 May 29, 2011, the amount of supplier loans effectively guaranteed by us was approximately $34 million, included in the table above. We have not established a liability for these guarantees, as we have determined that the likelihood of our required performance under the guarantees is remote.

We are a party to various agreements with an onion processing company. We have guaranteed, under certain conditions, repayment of a portion of the loan held by this supplier for its onion processing related operations. At May 29, 2011, the amount of our guarantee was $25 million, included in the table above. In the event of default on this loan by the supplier, we have the contractual right to purchase the loan from the lender, thereby giving us secured rights to the underlying collateral. We have not established a liability in connection with this guarantee, as we believe the likelihood of financial exposure to us under this guarantee is remote.

Federal income tax credits were generated related to the construction of 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, a period of seven years, in the event that the income tax credits are recaptured or reduced. The face value of the income tax credits was $21 million as of May 29, 2011. 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.

The obligations and commitments tables above do not include any reserves for income taxes, as we are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes. The liability for gross unrecognized tax benefits at May 29, 2011 was approximately $56 million. The net amount of unrecognized tax benefits at May 29, 2011, that, if recognized, would impact our effective tax rate was approximately $36 million. Recognition of this tax benefit would have a favorable impact on our effective tax rate.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on our historical experiences combined with management s understanding of current facts and circumstances. Certain of our accounting estimates are considered critical as they are both important to the portrayal of our financial condition and results and require significant or complex judgment on the part of management. The following is a summary of certain accounting estimates considered critical by management.

Our Audit Committee has reviewed management s development, selection, and disclosure of the critical accounting estimates.

Marketing Costs We incur certain costs to promote our products through marketing programs, which include advertising, customer incentives, and consumer incentives. We recognize the cost of each of these types of marketing activities as incurred in accordance with generally accepted accounting principles. The judgment required in determining when marketing costs are incurred can be significant. For volume-based incentives provided to customers, management must continually assess the likelihood of the customer achieving the specified targets. Similarly, for consumer coupons, management must estimate the level at which coupons will be redeemed by consumers in the future. Estimates made by management in accounting for marketing costs are based primarily on our historical experience with marketing programs with consideration given to current circumstances and industry trends. As these factors change, management s estimates could change and we could recognize different amounts of marketing costs over different periods of time.

We have recognized reserves of approximately $128 million for these marketing costs as of May 29, 2011. Changes in the assumptions used in estimating the cost of any individual customer marketing program would not result in a material change in our results of operations or cash flows.

Advertising and promotion expenses of continuing operations totaled $372 million, $409 million, and $381 million in fiscal 2011, 2010, and 2009, respectively.

Income Taxes Our income tax expense is based on our income, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our income tax expense and in evaluating our tax positions, including evaluating uncertainties. Management reviews tax positions at least quarterly and adjusts the balances as new information becomes available. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Management evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings, and available tax planning strategies. These estimates of future taxable income inherently require significant judgment. Management uses historical experience and short and long-range business forecasts to develop such estimates. Further, we employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. To the extent management does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Further information on income taxes is provided in Note 16 to the consolidated financial statements.

Environmental Liabilities Environmental liabilities are accrued when it is probable that obligations have been incurred and the associated amounts can be reasonably estimated. Management works with independent third-party specialists in order to effectively assess our environmental liabilities. Management estimates our environmental liabilities based on evaluation of investigatory studies, extent of required clean-up, our known volumetric contribution, other potentially responsible parties, and our experience in remediating sites. Environmental liability estimates may be affected by changing governmental or other external determinations of what constitutes an environmental liability or an acceptable level of clean-up. Management s estimate as to our potential liability is independent of any potential recovery of insurance proceeds or indemnification arrangements. Insurance companies and other indemnitors are notified of any potential claims and periodically updated as to the general status of known claims. We do not discount our environmental liabilities as the timing of the anticipated cash payments is not fixed or readily determinable. To the extent that there are changes in the evaluation factors identified above, management s estimate of environmental liabilities may also change.

We have recognized a reserve of approximately $70 million for environmental liabilities as of May 29, 2011. The reserve for each site is determined based on an assessment of the most likely required remedy and a related estimate of the costs required to effect such remedy. Historically, the underlying assumptions utilized in estimating this reserve have been appropriate as actual payments have neither differed materially from the previously estimated reserve balances, nor have significant adjustments to this reserve balance been necessary. In fiscal 2010, based on changes in the regulatory environment applicable to a particular site, we reduced the recognized environmental liability by approximately $15 million.

Employment-Related Benefits We incur certain employment-related expenses associated with pensions, postretirement health care benefits, and workers compensation. In order to measure the annual expense associated with these employment-related benefits, management must make a variety of estimates including, but not limited to, discount rates used to measure the present value of certain liabilities, assumed rates of return on assets set aside to fund these expenses, compensation increases, employee turnover rates, anticipated mortality rates, anticipated health care costs, and employee accidents incurred but not yet reported to us. The estimates used by management are based on our historical experience as well as current facts and circumstances. We use third-party specialists to assist management in appropriately measuring the expense associated with these employment-related benefits. Different estimates used by management could result in us recognizing different amounts of expense over different periods of time. We had recognized a pension liability of $352 million and $470 million, a postretirement liability of $322 million and $321 million, and a workers compensation liability of $74 million and $73 million, as of the end of fiscal 2011 and 2010, respectively. We also had recognized a pension asset of $15 million as of the end of fiscal 2011, as certain individual plans of the Company had a positive funded status.

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We recognized pension expense from Company plans of $55 million, $47 million, and $38 million in fiscal years 2011, 2010, and 2009, respectively, which reflected expected returns on plan assets of $173 million, $161 million, and $159 million, respectively. We contributed $129 million, $123 million, and $112 million to our pension plans in fiscal years 2011, 2010, and 2009, respectively. We anticipate contributing approximately $80 million to our pension plans in fiscal 2012.

One significant assumption for pension plan accounting is the discount rate. We select a discount rate each year (as of our fiscal year-end measurement date) for our plans based upon a hypothetical bond portfolio for which the cash flows from coupons and maturities match the year-by-year projected benefit cash flows for our pension plans. The hypothetical bond portfolio is comprised of high-quality fixed income debt instruments (usually Moody s Aa) available at the measurement date. Based on this information, the discount rate selected by us for determination of pension expense was 5.8% for fiscal year 2011, 6.9% for fiscal 2010, and 6.6% for fiscal 2009. We selected a discount rate of 5.3% for determination of pension expense for fiscal 2012. A 25 basis point increase in our discount rate assumption as of the beginning of fiscal 2011 would decrease pension expense for our pension plans by $8 million for the year. A 25 basis point decrease in our discount rate assumption as of the beginning of fiscal 2011 would increase pension expense for our pension plans by $9 million for the year. A 25 basis point increase in the discount rate would decrease pension expense by approximately $9 million for fiscal 2012. A 25 basis point decrease in the discount rate would increase pension expense by approximately $10 million for fiscal 2012. For our year-end pension obligation determination, we selected a discount rate of 5.3% and 5.8% for fiscal years 2011 and 2010, respectively.

Another significant assumption used to account for our pension plans is the expected long-term rate of return on plan assets. In developing the assumed long-term rate of return on plan assets for determining pension expense, we consider long-term historical returns (arithmetic average) of the plan s investments, the asset allocation among types of investments, estimated long-term returns by investment type from external sources, and the current economic environment. Based on this information, we selected 7.75% for the long-term rate of return on plan assets for determining our fiscal 2011 pension expense. A 25 basis point increase/decrease in our expected long-term rate of return assumption as of the beginning of fiscal 2011 would decrease/increase annual pension expense for our pension plans by approximately $5 million. We selected an expected rate of return on plan assets of 7.75% to be used to determine our pension expense for fiscal 2012. A 25 basis point increase/decrease in our expected long-term rate of return assumption as of the beginning of fiscal 2012 would decrease/increase annual pension expense for our pension plans by approximately $6 million.

When calculating expected return on plan assets for pension plans, we use a market-related value of assets that spreads asset gains and losses (differences between actual return and expected return) over five years. The market-related value of assets used in the calculation of expected return on plan assets for fiscal 2011 was $63 million higher than the actual fair value of plan assets.

The rate of compensation increase is another significant assumption used in the development of accounting information for pension plans. We determine this assumption based on our long-term plans for compensation increases and current economic conditions. Based on this information, we selected 4.25% for fiscal years 2011 and 2010 as the rate of compensation increase for determining our year-end pension obligation. We selected 4.25% for the rate of compensation increase for determination of pension expense for fiscal 2011, 2010, and 2009. A 25 basis point increase in our rate of compensation increase assumption as of the beginning of fiscal 2011 would increase pension expense for our pension plans by approximately $1 million for the year. A 25 basis point decrease in our rate of compensation increase assumption as of the beginning of fiscal 2011 would decrease pension expense for our pension plans by approximately $1 million for the year. We selected a rate of 4.25% for the rate of compensation increase to be used to determine our pension expense for fiscal 2012. A 25 basis point increase/decrease in our rate of compensation increase assumption as of the beginning of fiscal 2012 would increase/decrease pension expense for our pension plans by approximately $1 million for the year.

We also provide certain postretirement health care benefits. We recognized postretirement benefit expense of $12 million, $9 million, and $15 million in fiscal 2011, 2010, and 2009, respectively. We reflected liabilities of $322 million and $321 million in our balance sheets as of May 29, 2011 and May 30, 2010, respectively. We anticipate contributing approximately $32 million to our postretirement health care plans in fiscal 2012.

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The postretirement benefit expense and obligation are also dependent on our assumptions used for the actuarially determined amounts. These assumptions include discount rates (discussed above), health care cost trend rates, inflation rates, retirement rates, mortality rates, and other factors. The health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Assumed inflation rates are based on an evaluation of external market indicators. Retirement and mortality rates are based primarily on actual plan experience. The discount rate we selected for determination of postretirement expense was 5.4% for fiscal 2011, 6.6% for fiscal 2010, and 6.4% for fiscal 2009. We have selected a discount rate of 4.9% for determination of postretirement expense for fiscal 2012. A 25 basis point increase/decrease in our discount rate assumption as of the beginning of fiscal 2011 would not have resulted in a material change to postretirement expense for our plans. We have assumed the initial year increase in cost of health care to be 7.5%, with the trend rate decreasing to 5.0% by 2016. A one percentage point change in the assumed health care cost trend rate would have the following effect:

($ in millions)	**One Percent Increase**	**One Percent Decrease**
Effect on total service and interest cost	$ 1	$ (1)
Effect on postretirement benefit obligation	24	(22)

We provide workers compensation benefits to our employees. The measurement of the liability for our cost of providing these benefits is largely based upon actuarial analysis of costs. One significant assumption we make is the discount rate used to calculate the present value of our obligation. The discount rate used at May 29, 2011 was 3.4%. A 25 basis point increase/decrease in the discount rate assumption would not have a material impact on workers compensation expense.

Impairment of Long-Lived Assets (including property, plant and equipment), Goodwill, and Identifiable Intangible Assets We reduce the carrying amounts of long-lived assets, goodwill, and identifiable intangible assets to their fair values when the fair value of such assets is determined to be less than their carrying amounts (i.e., assets are deemed to be impaired). Fair value is typically estimated using a discounted cash flow analysis, which requires us to estimate the future cash flows anticipated to be generated by the particular asset(s) being tested for impairment as well as to select a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, we consider historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by management in such areas as future economic conditions, industry-specific conditions, product pricing, and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets, goodwill, and identifiable intangible assets.

We utilize a relief from royalty methodology in evaluating impairment of our indefinite lived brands/trademarks. The methodology determines the fair value of each brand through use of a discounted cash flow model that incorporates an estimated royalty rate we would be able to charge a third party for the use of the particular brand. When determining the future cash flow estimates, we must estimate future net sales and a fair market royalty rate for each applicable brand and an appropriate discount rate to measure the present value of the anticipated cash flows. Estimating future net sales requires significant judgment by management in such areas as future economic conditions, product pricing, and consumer trends.

In determining an appropriate discount rate to apply to the estimated future cash flows, we consider the current interest rate environment and our estimated cost of capital. As the calculated fair value of our goodwill and other identifiable intangible assets generally significantly exceeds the carrying amount of these assets, a one percentage point increase in the discount rate assumptions used to estimate the fair values of our goodwill and other identifiable intangible assets would not result in a material impairment charge.

OTHER MATTERS

From time to time, one of our business units has engaged an environmental and agricultural engineering services firm. The firm is a subsidiary of an entity whose chief executive officer serves on our Board of Directors. Payments to this firm for environmental and agricultural engineering services and structures acquired totaled $0.3 million in both fiscal 2011 and 2010.

FORWARD-LOOKING STATEMENTS

This report, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management s current views and assumptions of future events and financial performance and are subject to uncertainty and changes in circumstances. Readers of this report should understand that these statements are not guarantees of performance or results. Many factors could affect our actual financial results and cause them to vary materially from the expectations contained in the forward-looking statements, including those set forth in this report. These factors include, among other things: availability and prices of raw materials, including the impact of inflation; the impact of the 2009 accident at the Garner, North Carolina manufacturing facility, including the ultimate costs incurred versus the amounts received under insurance policies; the effectiveness of our product pricing, including our ability to timely increase prices; future economic circumstances; industry conditions; our ability to execute our operating and network optimization plans; the success of our innovation, marketing, and cost-savings initiatives; the amount and timing of repurchases of our common stock, if any; the competitive environment and related market conditions; operating efficiencies; the ultimate impact of recalls; access to capital; actions of governments and regulatory factors affecting our businesses, including the Patient Protection and Affordable Care Act; and other risks described in our reports filed with the Securities and Exchange Commission. We caution readers not to place undue reliance on any forward-looking statements included in this report, which speak only as of the date of this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks affecting us during fiscal 2011 and 2010 were exposures to price fluctuations of commodity and energy inputs, interest rates, and foreign currencies. These fluctuations impacted all reporting segments, as well as our trading and merchandising activities, which are presented as discontinued operations for all periods presented in our financial statements.

Commodity Market Risk We purchase commodity inputs such as wheat, corn, oats, soybean meal, soybean oil, meat, dairy products, sugar, natural gas, electricity, and packaging materials to be used in our operations. These commodities are subject to price fluctuations that may create price risk. We enter into commodity hedges to manage this price risk using physical forward contracts or derivative instruments. We have policies governing the hedging instruments our businesses may use. These policies include limiting the dollar risk exposure for each of our businesses. We also monitor the amount of associated counter-party credit risk for all non-exchange-traded transactions. In addition, during our ownership of the trading and merchandising business (divested during quarter one of fiscal 2009), we purchased and sold certain commodities, such as wheat, corn, soybeans, soybean meal, soybean oil, oats, natural gas, and crude oil (presented in discontinued operations).

Interest Rate Risk From time to time, we use interest rate swaps to manage the effect of interest rate changes on the fair value of our existing debt as well as the forecasted interest payments for the anticipated issuance of debt. During the fourth quarter of fiscal 2010, we entered into interest rate swap contracts used to effectively convert the interest rates of certain outstanding debt instruments from fixed to variable. During the second quarter of fiscal 2011, we terminated these interest rate swap contracts. As a result of this termination, we received proceeds of $32 million. The cumulative adjustment to the fair value of the debt instruments being hedged, $35 million, was included in long-term debt and is being amortized as a reduction of interest expense over the remaining lives of the debt instruments (through fiscal 2014).

During the third quarter of fiscal 2011, we entered into interest rate swap contracts to hedge the interest rate risk related to our forecasted issuance of long-term debt in 2014 (based on the anticipated refinancing of the senior long-term debt maturing at that time). The net notional amount of these interest rate derivatives at May 29, 2011 was

$250 million. The maximum potential loss associated with these interest rate swap contracts from a hypothetical change of 1% in interest rates is approximately $53 million. Any such gain or loss would be deferred in accumulated other comprehensive income and recognized in earnings over the life of the forecasted interest payments associated with the anticipated debt refinancing. At May 29, 2011, we had recognized an unrealized loss of $12 million in accumulated other comprehensive income for these derivative instruments.

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As of May 29, 2011 and May 30, 2010, the fair value of our fixed rate debt was estimated at $3.6 billion and $4.1 billion, respectively, based on current market rates primarily provided by outside investment advisors. As of May 29, 2011 and May 30, 2010, a one percentage point increase in interest rates would decrease the fair value of our fixed rate debt by approximately $208 million and $234 million, respectively, while a one percentage point decrease in interest rates would increase the fair value of our fixed rate debt by approximately $232 million and $256 million, respectively.

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

Value-at-Risk (VaR) We employ various tools to monitor our derivative risk, including value-at-risk (VaR) models. We perform simulations using historical data to estimate potential losses in the fair value of current derivative positions. We use price and volatility information for the prior 90 days in the calculation of VaR that is used to monitor our daily risk. The purpose of this measurement is to provide a single view of the potential risk of loss associated with derivative positions at a given point in time based on recent changes in market prices. Our model uses a 95 percent confidence level. Accordingly, in any given one day time period, losses greater than the amounts included in the table, below, are expected to occur only 5 percent of the time. We include commodity swaps, futures, and options and foreign exchange forwards, swaps, and options in this calculation. The following table provides an overview of our average daily VaR for our energy, agriculture, and other commodities as well as the average daily foreign exchange VaR. Other commodities may include items such as packaging, livestock, and/or metals.

	Fair Value Impact (in millions)	
	Average During Fifty-two Weeks Ended May 29, 2011	**Average During Fifty-two Weeks Ended May 30, 2010**
Energy Commodities	$ 1.8	$ 1.3
Agriculture Commodities	$ 3.2	$ 1.5
Other Commodities	$	$ 0.1
Foreign Exchange	$ 1.3	$ 0.9

Prior to fiscal 2011, we presented analyses of market risk using a sensitivity analysis methodology. During fiscal 2011, we began using a VaR methodology for purposes of this presentation, as this is a methodology used by management in monitoring market risk, and we believe this is a more useful presentation to readers.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF EARNINGS

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions except per share amounts

	For the Fiscal Years Ended May 2011	2010	2009
Net sales	$ 12,303.1	$ 12,014.9	$ 12,348.6
Costs and expenses:			
Cost of goods sold	9,389.6	8,953.7	9,571.1
Selling, general and administrative expenses	1,511.1	1,819.4	1,683.2
Interest expense, net	177.5	160.4	186.0
Income from continuing operations before income taxes and equity method investment earnings	1,224.9	1,081.4	908.3
Income tax expense	421.0	360.9	317.1
Equity method investment earnings	26.4	22.1	24.0
Income from continuing operations	830.3	742.6	615.2
Income (loss) from discontinued operations, net of tax	(11.5)	(19.3)	363.8
Net income	$ 818.8	$ 723.3	$ 979.0
Less: Net income (loss) attributable to noncontrolling interests	1.8	(2.5)	0.6
Net income attributable to ConAgra Foods, Inc.	$ 817.0	$ 725.8	$ 978.4
Earnings per share basic			
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	$ 1.92	$ 1.68	$ 1.36
Income (loss) from discontinued operations attributable to ConAgra Foods, Inc. common stockholders	(0.02)	(0.05)	0.80
Net income attributable to ConAgra Foods, Inc. common stockholders	$ 1.90	$ 1.63	$ 2.16
Earnings per share diluted			
Income from continuing operations attributable to ConAgra Foods, Inc. common stockholders	$ 1.90	$ 1.66	$ 1.35
Income (loss) from discontinued operations attributable to ConAgra Foods, Inc. common stockholders	(0.02)	(0.04)	0.80
	$ 1.88	$ 1.62	$ 2.15

Net income attributable to ConAgra Foods, Inc. common stockholders

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions

	For the Fiscal Years Ended May 2011	2010	2009
Net income	$ 818.8	$ 723.3	$ 979.0
Other comprehensive income (loss):			
Derivative adjustments, net of tax	(7.2)	0.2	(0.7)
Unrealized gains and losses on available-for-sale securities, net of tax:			
Unrealized net holding losses	(0.1)		(0.4)
Reclassification adjustment for losses included in net income			0.3
Currency translation adjustment:			
Unrealized translation gains (losses)	47.3	(3.7)	(72.1)
Reclassification adjustment for losses (gains) included in net income	(1.6)		2.0
Pension and postretirement healthcare liabilities, net of tax	24.2	(178.1)	(319.3)
Comprehensive income	881.4	541.7	588.8
Comprehensive income (loss) attributable to noncontrolling interests	1.8	(2.5)	0.6
Comprehensive income attributable to ConAgra Foods, Inc.	$ 879.6	$ 544.2	$ 588.2

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions except share data

	May 29, 2011	May 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 972.4	$ 953.2
Receivables, less allowance for doubtful accounts of $7.8 and $8.5	849.4	849.6
Inventories	1,803.4	1,597.9
Prepaid expenses and other current assets	274.1	307.3
Current assets held for sale		252.1
Total current assets	3,899.3	3,960.1
Property, plant and equipment		
Land and land improvements	201.3	168.6
Buildings, machinery and equipment	4,440.1	4,093.0
Furniture, fixtures, office equipment and other	871.9	843.0
Construction in progress	184.8	248.0
	5,698.1	5,352.6
Less accumulated depreciation	(3,028.0)	(2,750.2)
Property, plant and equipment, net	2,670.1	2,602.4
Goodwill	3,609.4	3,549.9
Brands, trademarks and other intangibles, net	936.3	874.8
Other assets	293.6	695.6
Noncurrent assets held for sale		55.2
	$ 11,408.7	$ 11,738.0
LIABILITIES AND COMMON STOCKHOLDERS EQUITY		
Current liabilities		
Notes payable	$	$ 0.6
Current installments of long-term debt	363.5	260.2
Accounts payable	1,083.7	919.1
Accrued payroll	124.1	263.9
Other accrued liabilities	554.3	579.0
Current liabilities held for sale		13.4
Total current liabilities	2,125.6	2,036.2

Senior long-term debt, excluding current installments		2,674.4		3,030.5
Subordinated debt		195.9		195.9
Other noncurrent liabilities		1,704.3		1,541.3
Noncurrent liabilities held for sale				5.2
Total liabilities		6,700.2		6,809.1
Commitments and contingencies (Notes 17 and 18)				
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		899.1		897.5
Retained earnings		4,853.6		4,417.1
Accumulated other comprehensive loss		(222.7)		(285.3)
Less treasury stock, at cost, common shares 157,412,899 and 125,637,495		(3,668.2)		(2,945.1)
Total ConAgra Foods common stockholders equity		4,701.5		4,923.9
Noncontrolling interests		7.0		5.0
Total common stockholders equity		4,708.5		4,928.9
	$	11,408.7	$	11,738.0

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS EQUITY

CONAGRA FOODS, INC. AND SUBSIDIARIES

FOR THE FISCAL YEARS ENDED MAY

Dollars in millions except per share amounts

	ConAgra Foods, Inc. Stockholders Equity							
	Common Shares	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Noncontrolling Interests**	**Total Equity**
Balance at May 25, 2008	566.7	$ 2,833.4	$ 866.9	$ 3,409.5	$ 286.5	$ (2,058.9)	$	$ 5,337.4
Stock option and incentive plans	0.5	2.5	17.5	(0.6)		20.7		40.1
Currency translation adjustment, net of reclassification adjustment					(70.1)			(70.1)
Repurchase of common shares						(900.0)		(900.0)
Unrealized loss on securities, net of reclassification adjustment					(0.1)			(0.1)
Derivative adjustment, net of reclassification adjustment					(0.7)			(0.7)
Adoption of new deferred compensation accounting guidance				(3.9)				(3.9)
Pension and postretirement healthcare					(319.3)			(319.3)

benefits								
Dividends declared on common stock; $0.76 per share				(340.9)				(340.9)
Net income attributable to ConAgra Foods, Inc.				978.4				978.4
Balance at May 31, 2009	567.2	2,835.9	884.4	4,042.5	(103.7)	(2,938.2)		4,720.9
Stock option and incentive plans	0.7	3.8	15.1	(1.3)		93.1		110.7
Currency translation adjustment					(3.7)			(3.7)
Repurchase of common shares						(100.0)		(100.0)
Derivative adjustment, net of reclassification adjustment					0.2			0.2
Activities of noncontrolling interests			(2.0)				5.0	3.0
Pension and postretirement healthcare benefits					(178.1)			(178.1)
Dividends declared on common stock; $0.79 per share				(349.9)				(349.9)
Net income attributable to ConAgra Foods, Inc.				725.8				725.8
Balance at May 30, 2010	567.9	2,839.7	897.5	4,417.1	(285.3)	(2,945.1)	5.0	4,928.9
Stock option and incentive plans			3.5	(0.4)		101.9		105.0
Currency translation adjustment, net					45.7			45.7

of reclassification adjustment								
Repurchase of common shares						(825.0)		(825.0)
Unrealized loss on securities					(0.1)			(0.1)
Derivative adjustment, net of reclassification adjustment					(7.2)			(7.2)
Activities of noncontrolling interests			(1.9)				2.0	0.1
Pension and postretirement healthcare benefits					24.2			24.2
Dividends declared on common stock; $0.89 per share				(380.1)				(380.1)
Net income attributable to ConAgra Foods, Inc.				817.0				817.0
Balance at May 29, 2011	567.9	$ 2,839.7	$ 899.1	$ 4,853.6	$ (222.7)	$ (3,668.2)	$ 7.0	$ 4,708.5

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

CONAGRA FOODS, INC. AND SUBSIDIARIES

FOR THE FISCAL YEARS ENDED MAY

Dollars in millions

	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 818.8	$ 723.3	$ 979.0
Income from discontinued operations	(11.5)	(19.3)	363.8
Income from continuing operations	830.3	742.6	615.2
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	360.9	324.1	304.9
Gain on sale of businesses		(14.3)	(19.7)
Asset impairment charges	19.8	64.4	5.3
Impairment charges related to Garner accident		31.5	
Insurance recoveries recognized related to Garner accident	(109.4)	(58.1)	
Receipts from insurance carriers related to Garner accident	64.5	50.2	
Distributions from affiliates greater (less) than current earnings	(13.1)	8.5	17.4
Share-based payments expense	44.8	55.8	45.9
Loss on retirement of debt			49.2
Proceeds from settlement of interest rate swaps	31.5		
Non-cash interest income on payment-in-kind notes		(67.9)	(41.1)
Receipt of interest on payment-in-kind notes earned in prior years	102.8	6.2	
Gain on collection of payment-in-kind notes	(25.0)		(3.6)
Contributions to Company pension plans	(129.4)	(122.6)	(112.0)
Other items (including noncurrent deferred income taxes)	267.5	89.7	12.8
Change in operating assets and liabilities excluding effects of business acquisitions and dispositions:			
Accounts receivable	2.8	(90.1)	74.8
Inventories	(190.7)	199.6	(47.0)
Prepaid expenses and other current assets	31.6	(20.0)	170.8
Accounts payable	185.0	73.9	17.5
Accrued payroll	(139.2)	96.9	(61.3)
Other accrued liabilities	5.3	59.6	(49.3)
Net cash flows from operating activities continuing operations	1,340.0	1,430.0	979.8
Net cash flows from operating activities discontinued operations	12.3	42.7	(855.8)
Net cash flows from operating activities	1,352.3	1,472.7	124.0
Cash flows from investing activities:			

Additions to property, plant and equipment	(466.2)	(482.3)	(428.9)
Receipts from insurance carriers related to Garner accident	18.0	34.8	
Sale of businesses		21.7	29.7
Sale of property, plant and equipment	18.9	88.4	17.7
Purchase of businesses and intangible assets	(149.1)	(106.5)	(80.3)
Proceeds from collection of payment-in-kind notes	412.5	91.9	
Other items			1.9
Net cash flows from investing activities continuing operations	(165.9)	(352.0)	(459.9)
Net cash flows from investing activities discontinued operations	254.8	(3.3)	2,251.1
Net cash flows from investing activities	88.9	(355.3)	1,791.2
Cash flows from financing activities:			
Net short-term borrowings			(578.3)
Issuance of long-term debt			1,030.1
Repayment of long-term debt	(294.3)	(15.8)	(1,015.7)
Repurchase of ConAgra Foods common shares	(825.0)	(100.0)	(900.0)
Cash dividends paid	(374.5)	(346.7)	(348.2)
Return of cash to minority interest holder			(20.0)
Exercise of stock options and issuance of other stock awards	59.7	54.7	6.1
Other items	2.1	3.9	(1.1)
Net cash flows from financing activities continuing operations	(1,432.0)	(403.9)	(1,827.1)
Net cash flows from financing activities discontinued operations	(0.1)	(0.6)	0.1
Net cash flows from financing activities	(1,432.1)	(404.5)	(1,827.0)
Effect of exchange rate changes on cash and cash equivalents	10.1	(2.9)	(16.7)
Net change in cash and cash equivalents	19.2	710.0	71.5
Discontinued operations cash activity included above:			
Add: Cash balance included in assets held for sale at beginning of year			30.8
Less: Cash balance included in assets held for sale at end of year			
Cash and cash equivalents at beginning of year	953.2	243.2	140.9
Cash and cash equivalents at end of year	$ 972.4	$ 953.2	$ 243.2

The accompanying Notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal years ended May 29, 2011, May 30, 2010, and May 31, 2009

Columnar Amounts in Millions Except Per Share Amounts

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year The fiscal year of ConAgra Foods, Inc. (ConAgra Foods , Company , we , us , or our) ends the last Su May. The fiscal years for the consolidated financial statements presented consist of 52-week periods for fiscal years 2011 and 2010 and a 53-week period for fiscal year 2009.

Basis of Consolidation The 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 consolidated financial statements from the date such determination is made. All significant intercompany investments, accounts, and transactions have been eliminated.

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

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

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

Inventories We principally use the lower of cost (determined using the first-in, first-out method) or market for valuing inventories other than merchandisable agricultural commodities. Grain, flour, and major feed ingredient inventories are principally stated at market value.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Depreciation has been calculated using the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Land improvements	1 - 40 years
Buildings	15 - 40 years

Machinery and equipment	3 - 20 years
Furniture, fixtures, office equipment and other	5 - 15 years

We review property, plant and equipment for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Recoverability of an asset considered held-and-used is determined by comparing the carrying amount of the asset to the undiscounted net cash flows expected to be generated from the use of the asset. If the carrying amount is greater than the undiscounted net cash flows expected to be generated by the asset, the asset s carrying amount is reduced to its estimated fair value. An asset considered held-for-sale is reported at the lower of the asset s carrying amount or fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal years ended May 29, 2011, May 30, 2010, and May 31, 2009

Columnar Amounts in Millions Except Per Share Amounts

Goodwill and Other Identifiable Intangible Assets Goodwill and other identifiable intangible assets with indefinite lives (e.g., brands or trademarks) are not amortized and are tested annually for impairment of value and whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. Impairment of identifiable intangible assets with indefinite lives occurs when the fair value of the asset is less than its carrying amount. If impaired, the asset s carrying amount is reduced to its fair value. Goodwill is evaluated using a two-step impairment test at a reporting unit level. A reporting unit can be an operating segment or a business within an operating segment. The first step of the test compares the carrying value of a reporting unit, including goodwill, with its fair value. We estimate the fair value using level 3 inputs as defined by the fair value hierarchy. Refer to Note 21 for the definition of the levels in the fair value hierarchy. The inputs used to calculate the fair value include a number of subjective factors, such as estimates of future cash flows, estimates of our future cost structure, discount rates for our estimated cash flows, required level of working capital, assumed terminal value, and time horizon of cash flow forecasts. If the carrying value of a reporting unit exceeds its fair value, we complete the second step of the test to determine the amount of goodwill impairment loss to be recognized. In the second step, we estimate an implied fair value of the reporting unit s goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The impairment loss is equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill. Our annual impairment testing is performed during the fourth quarter using a discounted cash flow-based methodology.

Identifiable intangible assets with definite lives (e.g., licensing arrangements with contractual lives or customer relationships) are amortized over their estimated useful lives and tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. Identifiable intangible assets with definite lives are evaluated for impairment using a process similar to that used in evaluating elements of property, plant and equipment. If impaired, the asset is written down to its fair value.

Fair Values of Financial Instruments Unless otherwise specified, we believe the carrying value of financial instruments approximates their fair value.

Environmental Liabilities Environmental liabilities are accrued when it is probable that obligations have been incurred and the associated amounts can be reasonably estimated. We use third-party specialists to assist management in appropriately measuring the obligations associated with environmental liabilities. Such liabilities are adjusted as new information develops or circumstances change. We do not discount our environmental liabilities as the timing of the anticipated cash payments is not fixed or readily determinable. Management s estimate of our potential liability is independent of any potential recovery of insurance proceeds or indemnification arrangements. We do not reduce our environmental liabilities for potential insurance recoveries.

Employment-Related Benefits Employment-related benefits associated with pensions, postretirement health care benefits, and workers compensation are expensed as such obligations are incurred. The recognition of expense is impacted by estimates made by management, such as discount rates used to value these liabilities, future health care costs, and employee accidents incurred but not yet reported. We use third-party specialists to assist management in appropriately measuring the obligations associated with employment-related benefits.

Revenue Recognition Revenue is recognized when title and risk of loss are transferred to customers upon delivery based on terms of sale and collectibility is reasonably assured. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts, trade allowances, and returns of damaged and out-of-date products. Changes in the market value of inventories of merchandisable agricultural commodities, forward cash purchase and sales contracts, and exchange-traded futures and options contracts are recognized in earnings immediately.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal years ended May 29, 2011, May 30, 2010, and May 31, 2009

Columnar Amounts in Millions Except Per Share Amounts

Marketing Costs We promote our products with advertising, consumer incentives, and trade promotions. Such programs include, but are not limited to, discounts, coupons, rebates, and volume-based incentives. Advertising costs are expensed as incurred. Consumer incentives and trade promotion activities are recorded as a reduction of revenue or as a component of cost of goods sold based on amounts estimated as being due to customers and consumers at the end of the period, based principally on historical utilization and redemption rates. Advertising and promotion expenses totaled $371.9 million, $409.1 million, and $380.6 million in fiscal 2011, 2010, and 2009, respectively, and are included in selling, general and administrative expenses.

Research and Development We incurred expenses of $81.4 million, $77.9 million, and $78.0 million for research and development activities in fiscal 2011, 2010, and 2009, respectively.

Comprehensive Income Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains/losses from pension and postretirement health care plans. We generally deem our foreign investments to be essentially permanent in nature and, as such, we do not provide for taxes on currency translation adjustments arising from converting the investment in a foreign currency to U.S. dollars. When we determine that a foreign investment, as well as undistributed earnings, are no longer permanent in nature, estimated taxes are provided for the related deferred taxes, if any, resulting from currency translation adjustments. We reclassified $1.6 million of foreign currency translation net gains to net income due to the disposal or substantial liquidation of foreign subsidiaries in fiscal 2011. We reclassified $2.0 million of foreign currency translation net losses to net income due to the disposal or substantial liquidation of foreign subsidiaries and equity method investments in fiscal 2009.

The following is a rollforward of the balances in accumulated other comprehensive income (loss), net of tax (except for currency translation adjustment):

	Currency Translation Adjustment, Net of Reclassification Adjustments	Net Derivative Adjustment, Net of Reclassification Adjustments	Unrealized Loss on Available-For-Sale Securities, Net of Reclassification Adjustments	Pension and Postretirement Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at May 25, 2008	$ 122.7	$ (0.5)	$ (1.1)	$ 165.4	$ 286.5
Current-period change	(70.1)	(0.7)	(0.1)	(319.3)	(390.2)
Balance at May 31, 2009	52.6	(1.2)	(1.2)	(153.9)	(103.7)

Current-period change	(3.7)	0.2		(178.1)	(181.6)
Balance at May 30, 2010	48.9	(1.0)	(1.2)	(332.0)	(285.3)
Current-period change					