

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law. The provisions of the Act provide for a federal subsidy for plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D, and alternatively would allow prescription drug plan sponsors to coordinate with the Medicare benefit. On May 19, 2004, the FASB issued Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," offering guidance on accounting for the effects of the Act. FSP No. 106-2 specifies that the subsidy initially received under the Act is recorded as an actuarial gain to the accumulated postretirement benefit obligation (APBO), and amortized over future service periods. Future subsidies or reductions in covered claims will reduce periodic service costs. FSP No. 106-2 is effective for the first interim or annual period beginning after June 15, 2004. During the third quarter of fiscal 2004, the company determined its plan to be at least actuarially equivalent based on an analysis of the net company cost, and chose to retroactively adopt the provisions of the Act back to the date of enactment. The required disclosure provisions are presented in Note F. As additional guidance is issued by the federal government for determining actuarial equivalency, this determination is subject to current interpretation and could require the company to change previously reported information.

## > note B

### Divestitures and Acquisitions

Effective June 30, 2004, the company completed the sale of Vista International Packaging, Inc., the company's food packaging subsidiary. The company recorded an \$18.1 million pre-tax gain (\$11.5 million after-tax, or \$.08 per share) in the third quarter of fiscal 2004 related to the sale.

On October 18, 2004, the company purchased the assets of Concept Foods, Inc. (Concept) for \$17.1 million in cash. Concept, located in Alma, Kansas, was renamed Alma Foods, LLC upon acquisition. Alma Foods manufactures a wide variety of fully-cooked entrees.

On July 31, 2003, the company purchased the assets of Century Foods International (CFI) for \$116.5 million in cash, including related costs. In the first quarter of fiscal 2004, an additional payment of \$2.1 million was made following a final working capital valuation. CFI, located in Sparta, Wisconsin, manufactures nutritional products, dairy proteins and blends, and cheese products.

On December 30, 2002, the company purchased 100 percent of the outstanding stock of the Imperial Sugar Company subsidiaries operating the Diamond Crystal Brands (DCB) business for \$124.5 million in cash, including related costs. DCB, headquartered in Savannah, Georgia, packages and sells various sugar and sugar substitute products, salt and pepper products, savory products, drink mixes, and dessert mixes to retail and foodservice customers.

The operating results of each acquisition are included in the company's consolidated statement of operations from the dates of acquisition. No divestitures or acquisitions in fiscal 2004, 2003, or 2002 were material individually or in aggregate.

## > note C

### Inventories

Principal components of inventories are:

(In Thousands)	October 30, 2004	October 25, 2003
Finished products	\$258,941	\$229,530
Raw materials and work-in-process	126,139	130,841
Materials and supplies	77,329	76,563
LIFO reserve	(36,754)	(33,721)
Total	\$425,655	\$403,213

Inventoriable expenses, packages, supplies, and turkey products amounting to approximately \$85.5 million at October 30, 2004, and \$91.1 million at October 25, 2003, are stated at cost determined by the last-in, first-out method and are \$36.8 million and \$33.7 million lower in the respective years than such inventories determined under the first-in, first-out method.

## > note D

### Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the fiscal years ended October 30, 2004, and October 25, 2003, are presented in the table below. The amounts presented for goodwill acquired in fiscal 2003 reflect the acquisitions of Diamond Crystal Brands and Century Foods International. The purchase adjustments in fiscal 2004 relate to finalizing the purchase accounting for those acquisitions, including a payment of \$2.1 million in the first quarter following a final working capital valuation for Century Foods International.