KELLOGG CO
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 3, 2009

OR

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

Commission file number 1-4171

KELLOGG COMPANY

State of Incorporation Delaware IRS Employer Identification No. 38-0710690
One Kellogg Square, P.O. Box 3599, Battle Creek, MI 49016-3599

Registrant s telephone number: 269-961-2000

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

Common Stock outstanding as of October 31, 2009 379,424,067 shares

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KELLOGG COMPANY

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

Kellogg Company and Subsidiaries

CONSOLIDATED BALANCE SHEET

(millions, except per share data)

	October 3, 2009 (unaudited)	January 3, 2009 *
Current assets		
Cash and cash equivalents	**$ 527**	$ 255
Accounts receivable, net	**1,254**	1,100
Inventories:		
Raw materials and supplies	**232**	203
Finished goods and materials in process	**631**	694
Deferred income taxes	**128**	112
Other prepaid assets	**126**	157
Total current assets	**2,898**	2,521
Property, net of accumulated depreciation of $4,498 and $4,171	**3,000**	2,933
Goodwill	**3,643**	3,637
Other intangibles, net of accumulated amortization of $43 and $42	**1,460**	1,461
Pension	**172**	96
Other assets	**347**	298
Total assets	**$ 11,520**	$ 10,946
Current liabilities		
Current maturities of long-term debt	**$ 1**	$ 1
Notes payable	**475**	1,387
Accounts payable	**1,082**	1,135
Accrued advertising and promotion	**479**	357
Accrued income taxes	**21**	51
Accrued salaries and wages	**289**	280
Other current liabilities	**386**	341
Total current liabilities	**2,733**	3,552
Long-term debt	**4,823**	4,068
Deferred income taxes	**338**	300
Pension liability	**603**	631
Other liabilities	**993**	940

Commitments and contingencies

Equity		
Common stock, $.25 par value	**105**	105
Capital in excess of par value	**454**	438
Retained earnings	**5,461**	4,836
Treasury stock, at cost	**(1,927)**	(1,790)
Accumulated other comprehensive income (loss)	**(2,066)**	(2,141)
Total Kellogg Company equity	**2,027**	1,448
Noncontrolling interests	**3**	7
Total equity	**2,030**	1,455
Total liabilities and equity	**$ 11,520**	$ 10,946

* Condensed from audited financial statements.

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share data)

	Quarter ended		Year-to-date period ended	
	October 3,	September 27,	**October 3,**	September 27,
(Results are unaudited)	**2009**	2008	**2009**	2008
Net sales	**$ 3,277**	$ 3,288	**$ 9,675**	$ 9,889
Cost of goods sold	**1,837**	1,885	**5,529**	5,678
Selling, general and administrative expense	**873**	870	**2,497**	2,603
Operating profit	**567**	533	**1,649**	1,608
Interest expense	**65**	71	**199**	230
Other income (expense), net	**(10)**	12	**(1)**	(7)
Income before income taxes	**492**	474	**1,449**	1,371
Income taxes	**132**	133	**416**	403
Earnings (loss) from joint ventures			**(1)**	
Net income	**$ 360**	$ 341	**$ 1,032**	$ 968
Net loss attributable to noncontrolling interests	**(1)**	(1)	**(4)**	(1)
Net income attributable to Kellogg Company	**$ 361**	$ 342	**$ 1,036**	$ 969
Per share amounts:				
Basic	**$ .94**	$ .90	**$ 2.71**	$ 2.54
Diluted	**$ .94**	$ .89	**$ 2.70**	$ 2.51
Dividends per share	**$ .3750**	$ .3400	**$ 1.0550**	$ .9600
Average shares outstanding:				
Basic	**382**	380	**382**	382
Diluted	**384**	384	**383**	385
Actual shares outstanding at period end			**379**	381

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF EQUITY

(millions)

	Common stock		Capital in excess of	Retained	Treasury stock		Accumulated other comprehensive	Total Kellogg Company	Noncontrolling	Total	Total comprehensive
(unaudited)	shares	amount	par value	earnings	shares	amount	income (loss)	equity	interests (a)	equity	income (loss)
Balance, December 29, 2007	419	$105	$388	$4,217	29	$(1,357)	$(827)	$2,526	$ 2	$ 2,528	
Common stock repurchases					13	(650)		(650)		(650)	
Business acquisitions									7	7	
Net income (loss)				1,148				1,148	(2)	1,146	1,146
Dividends				(495)				(495)		(495)	
Other comprehensive income (loss)							(1,314)	(1,314)		(1,314)	(1,314)
Stock compensation			51					51		51	
Stock options exercised and other			(1)	(34)	(5)	217		182		182	
Balance, January 3, 2009	419	$105	$438	$4,836	37	$(1,790)	$(2,141)	$1,448	$ 7	$ 1,455	$ (168)
Common stock repurchases					4	(187)		(187)		(187)	
Net income (loss)				1,036				1,036	(4)	1,032	1,032
Dividends				(403)				(403)		(403)	
Other comprehensive income (loss)							75	75		75	75
Stock compensation			28					28		28	
Stock options exercised and other			(12)	(8)	(1)	50		30		30	
Balance, October 3, 2009	**419**	**$105**	**$454**	**$5,461**	**40**	**$(1,927)**	**$(2,066)**	**$2,027**	**$ 3**	**$ 2,030**	**$ 1,107**

(a) Refer to Note 1 for further information.

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)

	Year-to-date period ended	
	October 3,	September 27,
(unaudited)	**2009**	2008
Operating activities		
Net income	**$ 1,032**	$ 968
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	**282**	274
Deferred income taxes	**(9)**	(12)
Other	**(18)**	123
Postretirement benefit plan contributions	**(93)**	(60)
Changes in operating assets and liabilities:		
Trade receivables	**(240)**	(182)
Inventories	**35**	33
Accounts payable	**(54)**	31
Accrued income taxes	**84**	27
Accrued interest	**(33)**	53
Accrued and prepaid advertising, promotion and trade allowances	**151**	35
Accrued salaries and wages	**(5)**	(62)
Exit plan related reserves	**14**	(4)
All other current assets and liabilities	**84**	(36)
Net cash provided by operating activities	**1,230**	1,188
Investing activities		
Additions to properties	**(252)**	(295)
Acquisitions of businesses, net of cash acquired		(212)
Property disposals	**1**	11
Net cash used in investing activities	**(251)**	(496)
Financing activities		
Net issuances (reductions) of notes payable	**(915)**	48
Issuances of long-term debt	**745**	756
Reductions of long-term debt		(466)
Issuances of common stock	**34**	155
Common stock repurchases	**(187)**	(650)
Cash dividends	**(403)**	(365)
Other	**2**	14
Net cash used in financing activities	**(724)**	(508)
Effect of exchange rate changes on cash	**17**	(24)
Increase in cash and cash equivalents	**272**	160
Cash and cash equivalents at beginning of period	**255**	524
Cash and cash equivalents at end of period	**$ 527**	$ 684

Refer to Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

for the quarter and year-to-date periods ended October 3, 2009 (unaudited)

Note 1 Accounting policies

Basis of presentation

The unaudited interim financial information of Kellogg Company (the Company) included in this report reflects normal recurring adjustments that management believes are necessary for a fair statement of the results of operations, financial position, equity and cash flows for the periods presented. This interim information should be read in conjunction with the financial statements and accompanying notes contained on pages 27 to 54 of the Company s 2008 Annual Report on Form 10-K.

The condensed balance sheet data at January 3, 2009 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The results of operations for the quarterly period ended October 3, 2009 are not necessarily indicative of the results to be expected for other interim periods or the full year.

The accounting policies used in preparing these financial statements are the same as those applied in the prior year, except that the Company adopted new financial accounting standards in its 2009 fiscal year, as discussed within this Note.

Accounting standards codification

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard which established the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification was effective for financial statements issued for interim and annual periods ending after September, 15, 2009, and was adopted by the Company in the quarter ended October 3, 2009. Adoption of this standard did not impact the Company s consolidated financial statements.

Subsequent events

In May 2009, the FASB issued a standard on subsequent events which was effective for the Company s quarter ended July 4, 2009. This standard requires interim and annual disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The Company s adoption of this standard, which was applied prospectively, resulted in additional disclosures contained in Note 12.

Interim fair value disclosures

In April 2009, the FASB issued a staff position on interim disclosures of the fair value of financial instruments. This staff position, which was adopted by the Company as of the quarter ended July 4, 2009, expanded to include certain fair value disclosures for financial instruments on an interim basis that were previously required on an annual basis. It also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim basis and to highlight any changes in the methods and significant assumptions from prior periods. The Company s adoption of this guidance, which was applied prospectively, resulted in additional disclosures contained in Note 9.

Fair value

In September 2006, the FASB issued a standard that defined fair value, established a framework for measuring fair value, and expanded disclosures about fair value measurements. In February 2008, the FASB issued a one-year deferral for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements at least annually. Assets and liabilities subject to this deferral included goodwill, intangible assets, long-lived assets measured at fair value for impairment assessments and nonfinancial assets and liabilities initially measured at fair value in a business combination. As of the beginning of its 2009 fiscal year, the Company applied the provisions of the standard to assets and liabilities subject to the one-year deferral. The provisions of this standard, which were applied prospectively, did not have a significant impact on the Company s consolidated financial statements.

In April 2009, the FASB issued a staff position on determining fair value when the volume and level of activity for the asset or liability have significantly decreased, and identifying transactions that are not orderly. It clarified and included additional factors to consider in determining whether there has been a significant decrease in market

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activity for an asset or liability. In addition, the staff position amended prior fair value measurement guidance to require additional disclosures in interim and annual periods. These disclosures include the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. The Company s adoption of this guidance as of the quarter ended July 4, 2009 resulted in additional disclosures contained in Note 9.

Disclosures about derivative instruments

In March 2008, the FASB issued a standard on disclosures about derivative instruments and hedging activities, which was adopted by the Company as of the beginning of its 2009 fiscal year. The standard requires companies to disclose their objectives and strategies for using derivative instruments, whether or not the derivatives are designated as hedging instruments. The pronouncement requires disclosure of the fair value of derivative instruments by primary underlying risk exposure (e.g. interest rate, credit, foreign exchange rate, combination of interest rate and foreign exchange rate, or overall price). It also requires disclosures about the income statement impact of derivative instruments by designation as fair value hedges, cash flow hedges, or hedges of the foreign currency exposure of a net investment in a foreign operation. The provisions of this standard, which were applied prospectively, resulted in additional disclosures contained in Note 10.

Business combinations and noncontrolling interests

In December 2007, the FASB issued separate standards on business combinations and noncontrolling interests in consolidated financial statements. These standards were adopted by the Company at the beginning of its 2009 fiscal year.

The underlying fair value concepts of previous guidance were retained, but the method for applying the acquisition method changed in a number of significant respects including the requirement to expense transaction fees and expected restructuring costs as incurred, rather than including these amounts in the allocated purchase price; the requirement to recognize the fair value of contingent consideration at the acquisition date, rather than the expected amount when the contingency is resolved; the requirement to recognize the fair value of acquired in-process research and development assets at the acquisition date, rather than immediately expensing them; and the requirement to recognize a gain in relation to a bargain purchase price, rather than reducing the allocated basis of long-lived assets. The effect on the Company s financial statements will depend primarily on specific transactions, if any, completed after 2008.

For acquisitions completed prior to January 4, 2009, changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recognized in net income rather than as an adjustment to the cost of the acquisition. These changes are not expected to have a significant impact on the Company s consolidated financial statements.

The consolidated financial statements are presented as if the parent company investors (controlling interests) and other minority investors (noncontrolling interests) in partially-owned subsidiaries have similar economic interests in a single entity. As a result, investments in noncontrolling interests are reported as equity in the consolidated financial statements. Furthermore, the consolidated financial statements include 100% of a controlled subsidiary s earnings, rather than only the Company s share. Lastly, transactions between the Company and noncontrolling interests are reported in equity as transactions between shareholders provided that these transactions do not create a change in control. Previously, acquisitions of additional interests in a controlled subsidiary generally resulted in remeasurement of assets and liabilities acquired; dispositions of interests resulted in a gain or loss. The Company s adoption of this pronouncement changed its presentation of noncontrolling interests.

New accounting pronouncements

In June 2009, the FASB issued guidance that changed the consolidation model for variable interest entities (VIEs). This guidance requires companies to qualitatively assess the determination of the primary beneficiary of a VIE based on whether a company (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For the Company, this standard is effective at the beginning of its 2010 fiscal year and must be applied retrospectively. The Company is currently in the process of evaluating the impact on its consolidated financial statements.

Note 2 Acquisitions and goodwill and other intangible assets

Acquisitions

The Company made acquisitions in 2008 in order to expand its presence geographically and increase its manufacturing capacity.

Specialty Cereals

In September 2008, the Company acquired Specialty Cereals of Sydney, Australia, a manufacturer and distributor of natural ready-to-eat cereals. Payments of $37 million in cash in connection with the transaction, including approximately $5 million paid to the seller s lenders, were classified as investing cash outflows in the Company s Consolidated Statement of Cash Flows for the year-to-date period ended September 27, 2008.

IndyBake Products/Brownie Products

In August 2008, the Company acquired certain assets and liabilities of the business of IndyBake Products and Brownie Products (collectively, IndyBake), located in Indiana and Illinois. IndyBake, a contract manufacturing business that produces cracker, cookie and frozen dough products, had been a partner to Kellogg for many years as a snacks contract manufacturer.

Payments of $42 million in cash in connection with the transaction, including approximately $8 million paid to the seller s lenders, were classified as investing cash outflows in the Company s Consolidated Statement of Cash Flows for the year-to-date period ended September 27, 2008.

Navigable Foods

In June 2008, the Company acquired a majority interest in the business of Zhenghang Food Company Ltd. (Navigable Foods) for a purchase price of $36 million in cash (net of cash received), including transaction fees. Navigable Foods, a manufacturer of cookies and crackers in the northern and northeastern regions of China, included approximately 1,800 employees, two manufacturing facilities and a sales and distribution network. Cash outflows of $28 million associated with the transaction, which represented payments to the seller and seller s lenders to satisfy debt and other obligations of the seller, were classified as investing cash outflows in the Company s Consolidated Statement of Cash Flows for the year-to-date period ended September 27, 2008.

United Bakers

In January 2008, subsidiaries of the Company acquired substantially all of the equity interests in OJSC Kreker (doing business as United Bakers) and consolidated subsidiaries. United Bakers is a leading producer of cereal, cookie and cracker products in Russia, with approximately 4,000 employees, six manufacturing facilities and a broad distribution network.

The Company paid $110 million cash (net of $5 million cash acquired), including approximately $67 million to settle debt and other assumed obligations of the acquired entities. Of the total cash paid, $5 million was spent in 2007 for transaction fees and advances. The remaining amount of $105 million was classified as an investing activity cash outflow in the Company s Consolidated Statement of Cash Flows for the year-to-date period ended September 27, 2008.

Goodwill and other intangible assets

Intangible assets subject to amortization

	Gross carrying amount		Accumulated amortization	
	October 3,	January 3,	**October 3,**	January 3,
(millions)	**2009**	2009	**2009**	2009
Trademarks	**$19**	$19	**$15**	$14
Other	**41**	41	**28**	28
Total	**$60**	$60	**$43**	$42

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For intangible assets in the preceding table, amortization was less than $1 million for each of the current and prior year quarterly periods. The currently estimated aggregate annual amortization expense for full-year 2009 and each of the four succeeding fiscal years is approximately $2 million.

Intangible assets not subject to amortization

	Total carrying amount	
	October 3,	January 3,
(millions)	**2009**	2009
Trademarks	**$1,443**	$1,443

Changes in the carrying amount of goodwill for the year-to-date period ended October 3, 2009 are presented in the following table. Certain of the Company s goodwill balances are subject to foreign currency translation adjustments. Fluctuations in exchange rates contributed to the change in goodwill balance for the period.

Carrying amount of goodwill

(millions)	North America	Europe	Latin America	Asia Pacific (a)	Consolidated
January 3, 2009	$3,539	$61	$	$37	$3,637
Currency translation adjustment		1		5	6
October 3, 2009	**$3,539**	**$62**	**$**	**$42**	**$3,643**

(a) Includes Australia, Asia and South Africa.

Note 3 Exit or disposal activities

The Company views its continued spending on cost reduction initiatives as part of its ongoing operating principles to provide greater visibility in achieving its long-term profit growth targets. Initiatives undertaken are currently expected to recover cash implementation costs within a five-year period of completion. Upon completion (or as each major stage is completed in the case of multi-year programs), the project begins to deliver cash savings and/or reduced depreciation.

2009 activities

During the third quarter of 2009, the Company incurred total costs of $18 million related to plans which will result in cost of goods sold (COGS) and selling, general and administrative expense (SGA) savings. The COGS programs are Kellogg s lean, efficient, and agile network (K LEAN), a European manufacturing optimization in Bremen, Germany and a supply chain network rationalization in Latin America. The SGA program focuses on the efficiency and effectiveness of various support functions.

Total charges for the quarter and year-to-date periods ended October 3, 2009 for all programs were:

	Quarter ended October 3, 2009				
(millions)	**Employee severance**	**Other cash costs (a)**	**Asset write-offs**	**Retirement benefits (b)**	**Total**
COGS programs	$ 6	$ 2	$ 2	$ 3	$ 13
SGA programs	3	2			5
Total	**$ 9**	**$ 4**	**$ 2**	**$ 3**	**$ 18**

Year-to-date period ended October 3, 2009

(millions)	Employee severance	Other cash costs (a)	Asset write-offs	Retirement benefits (b)	Total
COGS programs	$ 19	$ 6	$ 2	$ 3	$ 30
SGA programs	8	2			10
Total	**$ 27**	**$ 8**	**$ 2**	**$ 3**	**$ 40**

(a) Primarily includes expenditures for equipment removal and relocation.

(b) Pension plan curtailment losses and special termination benefits.

K LEAN seeks to optimize the Company s global manufacturing network, reduce waste, develop best practices on a global basis and reduce capital expenditures. The Company expects to incur approximately $20 million of costs for 2009 and an additional $20 million in 2010. The charges are primarily for cash payments for severance and

other cash costs for asset removal and relocation at various global manufacturing facilities. The above costs impacted operating segments for the quarter and year-to-date periods, respectively as follows (in millions): North America $2 and $12; Europe $4 and $5; and Asia Pacific $1 and $1.

The Company incurred $1 million of costs in the third quarter related to a manufacturing optimization program in Bremen, Germany which will result in future cash savings through the elimination of employee positions. Year-to-date charges, representing cash payment for employee severance were $7 million and were recorded in the Europe operating segment. The program was substantially complete as of the end of the third quarter, 2009.

The Company incurred $5 million of costs related to supply chain rationalization in Latin America which will result in the closing of a plant in Guatemala. The Company expects to incur approximately $6 million of costs during the remainder of the year. The charges represent cash payments for severance and other cash costs associated with the elimination of employee positions and asset removal and relocation costs as well as non-cash asset write offs. Efficiencies gained in other plants in the Latin America network allow the Company to service the Guatemala market from those plants.

During the third quarter of 2009, the Company incurred $5 million of costs for SGA programs which will result in an improvement in the efficiency and effectiveness of various support functions. The programs realign these functions to provide greater consistency across processes, procedures and capabilities in order to support the global organization. The Company expects to incur approximately $23 million of costs for 2009 and an additional $2 million in 2010. The charges represent cash payments for severance and other cash costs associated with the elimination of salaried positions. Charges in the third quarter were recorded in the Europe operating segment. On a year-to date basis, the Company incurred $5 million of charges in the North America operating segment and $5 million of charges in the Europe operating segment.

Reserves for the plans are primarily for employee severance and will be paid out by the end of the first quarter, 2010. The detail is as follows:

(millions)	Balance January 3, 2009	Accruals	Payments	**Balance October 3, 2009**
COGS programs	$	$19	$(10)	**$ 9**
SGA programs		8	(1)	**7**
Total	$	$27	$(11)	**$16**

Prior year activities

The Company incurred $3 million of costs for the quarter ended September 27, 2008 for two projects: the European manufacturing optimization plan impacting the facility in Manchester, England; and the reorganization of production processes to reflect changing market dynamics which impacted plants in Valls, Spain and Bremen, Germany. These costs were recorded in cost of goods sold and were attributable to the Europe operating segment.

These programs were completed in 2008. There were no exit reserves related to either of the programs as of October 3, 2009. As of the end of the Company s 2008 fiscal year, there was a reserve for employee severance of $2 million. See page 37 in the Company s 2008 Annual Report on Form 10-K for further information on these projects.

The following tables present the total costs for these projects for the quarter and year-to-date periods ended September 27, 2008:

	Quarter ended September 27, 2008				
(millions)	**Employee severance**	**Other cash costs (a)**	**Asset write-offs**	**Retirement benefits (b)**	**Total**
Manufacturing optimization	$	$1	$	$	$ 1
Reorganization of production			2		2
Total	**$**	**$1**	**$ 2**	**$**	**$ 3**

	Year-to-date period ended September 27, 2008				
(millions)	**Employee severance**	**Other cash costs (a)**	**Asset write-offs**	**Retirement benefits (b)**	**Total**
Manufacturing optimization	$ 3	$ 2	$ (4)	$ 2	$ 3
Reorganization of production	4	1	6		11
Total	**$ 7**	**$ 3**	**$ 2**	**$ 2**	**$14**

(a) Includes cash costs for equipment removal and relocation and asset write-offs net of proceeds received for sold assets.

(b) Pension plan curtailment losses and special termination benefits.

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Note 4 Equity

Earnings per share

Basic net earnings per share is determined by dividing net income attributable to Kellogg Company by the weighted average number of common shares outstanding during the period. Diluted net earnings per share is similarly determined, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued. Dilutive potential common shares are comprised principally of employee stock options issued by the Company, and to a lesser extent, certain contingently issuable performance shares. Basic net earnings per share is reconciled to diluted net earnings per share in the following table. The total number of anti-dilutive potential common shares excluded from the reconciliation were 12 million and 20 million for the quarter and year-to-date periods ended October 3, 2009, as compared to 4 million and 2 million shares for the quarter and year-to-date periods ended September 27, 2008.

Quarters ended October 3, 2009 and September 27, 2008:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Net earnings per share
2009			
Basic	**$361**	**382**	**$ .94**
Dilutive potential common shares		**2**	
Diluted	**$361**	**384**	**$ .94**
2008			
Basic	$342	380	$ .90
Dilutive potential common shares		4	(.01)
Diluted	$342	384	$ .89

Year-to-date periods ended October 3, 2009 and September 27, 2008:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Net earnings per share
2009			
Basic	**$1,036**	**382**	**$2.71**
Dilutive potential common shares			