

KELLOGG CO
Form 10-Q
August 04, 2014
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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)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2014

OR

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

Commission file number 1-4171

KELLOGG COMPANY

State of Incorporation Delaware
One Kellogg Square, P.O. Box 3599, Battle Creek, MI 49016-3599

IRS Employer Identification No.38-0710690

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.

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Yes No

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

Yes No

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

Large accelerated filer 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

Common Stock outstanding as of July 26, 2014 360,122,788 shares

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Table of Contents**Part I FINANCIAL INFORMATION****Item 1. Financial Statements.****Kellogg Company and Subsidiaries****CONSOLIDATED BALANCE SHEET**

(millions, except per share data)

	June 28, 2014	December 28, 2013 *
	(unaudited)	
Current assets		
Cash and cash equivalents	\$ 290	\$ 273
Accounts receivable, net	1,544	1,424
Inventories:		
Raw materials and supplies	345	319
Finished goods and materials in process	958	929
Deferred income taxes	169	195
Other prepaid assets	185	127
Total current assets	3,491	3,267
Property, net of accumulated depreciation of \$5,719 and \$5,501	3,879	3,856
Goodwill	5,055	5,051
Other intangibles, net of accumulated amortization of \$66 and \$62	2,361	2,367
Pension	501	419
Other assets	526	514
Total assets	\$ 15,813	\$ 15,474
Current liabilities		
Current maturities of long-term debt	\$ 607	\$ 289
Notes payable	858	739
Accounts payable	1,462	1,432
Accrued advertising and promotion	487	476
Accrued income taxes	39	69
Accrued salaries and wages	287	327
Other current liabilities	555	503
Total current liabilities	4,295	3,835
Long-term debt	6,029	6,330
Deferred income taxes	917	928
Pension liability	269	277
Nonpension postretirement benefits	69	68
Other liabilities	421	429

Commitments and contingencies**Equity**

Common stock, \$.25 par value	105	105
Capital in excess of par value	653	626
Retained earnings	7,113	6,749
Treasury stock, at cost	(3,191)	(2,999)
Accumulated other comprehensive income (loss)	(928)	(936)

Total Kellogg Company equity	3,752	3,545
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Noncontrolling interests	61	62
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Total equity	3,813	3,607
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Total liabilities and equity	\$ 15,813	\$ 15,474
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* Condensed from audited financial statements.
Refer to Notes to Consolidated Financial Statements.

Table of Contents**Kellogg Company and Subsidiaries****CONSOLIDATED STATEMENT OF INCOME**

(millions, except per share data)

(Results are unaudited)	Quarter ended		Year-to-date period ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	\$ 3,685	\$ 3,714	\$ 7,427	\$ 7,575
Cost of goods sold	2,274	2,237	4,512	4,705
Selling, general and administrative expense	944	907	1,834	1,797
Operating profit	467	570	1,081	1,073
Interest expense	50	61	102	121
Other income (expense), net	3	(5)	13	(12)
Income before income taxes	420	504	992	940
Income taxes	122	150	287	274
Earnings (loss) from joint ventures	(3)	(2)	(4)	(3)
Net income	\$ 295	\$ 352	\$ 701	\$ 663
Net income (loss) attributable to noncontrolling interests				
Net income attributable to Kellogg Company	\$ 295	\$ 352	\$ 701	\$ 663
Per share amounts:				
Basic	\$ 0.82	\$ 0.96	\$ 1.95	\$ 1.82
Diluted	\$ 0.82	\$ 0.96	\$ 1.94	\$ 1.81
Dividends per share	\$ 0.46	\$ 0.44	\$ 0.92	\$ 0.88
Average shares outstanding:				
Basic	359	364	360	364
Diluted	362	367	362	366
Actual shares outstanding at period end			360	362

Refer to Notes to Consolidated Financial Statements.

Table of Contents**Kellogg Company and Subsidiaries****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(millions)

	Quarter ended June 28, 2014			Year-to-date period ended June 28, 2014		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
(Results are unaudited)						
Net income			\$ 295			\$ 701
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ 30		\$ 30	\$ 33		\$ 33
Cash flow hedges:						
Unrealized gain (loss) on cash flow hedges	(23)	7	(16)	(24)	7	(17)
Reclassification to net income	(1)		(1)	(11)	3	(8)
Postretirement and postemployment benefits:						
Amounts arising during the period:						
Prior service credit (cost)	(9)	3	(6)	(9)	3	(6)
Reclassification to net income:						
Net experience loss	1		1	2		2
Prior service cost	4	(1)	3	6	(2)	4
Other comprehensive income (loss)	\$ 2	\$ 9	\$ 11	\$ (3)	\$ 11	\$ 8
Comprehensive income			\$ 306			\$ 709

	Quarter ended June 29, 2013			Year-to-date period ended June 29, 2013		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
(Results are unaudited)						
Net income			\$ 352			\$ 663
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$ (51)		\$ (51)	\$ (91)		\$ (91)
Cash flow hedges:						
Unrealized gain (loss) on cash flow hedges	1		1	12	(3)	9
Reclassification to net income	(2)		(2)	(2)		(2)
Postretirement and postemployment benefits:						
Reclassification to net income:						
Net experience loss	1		1	3		3
Prior service cost	3	(1)	2	6	(2)	4
Other comprehensive income (loss)	\$ (48)	\$ (1)	\$ (49)	\$ (72)	\$ (5)	\$ (77)
Comprehensive income			\$ 303			\$ 586

Refer to Notes to Consolidated Financial Statements.

Table of Contents**Kellogg Company and Subsidiaries****CONSOLIDATED STATEMENT OF EQUITY**

(millions)

(unaudited)	Common stock		Capital in excess of	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)	Total Kellogg Company equity	Non-controlling interests	Total equity	Total comprehensive income (loss)
	shares	amount	par value		shares	amount					
Balance, December 29, 2012	420	\$ 105	\$ 573	\$ 5,615	58	\$ (2,943)	\$ (946)	\$ 2,404	\$ 61	\$ 2,465	
Common stock repurchases					9	(544)		(544)		(544)	
Net income				1,807				1,807	1	1,808	\$ 1,808
Dividends				(653)				(653)		(653)	
Other comprehensive income							10	10		10	10
Stock compensation			28					28		28	
Stock options exercised and other			25	(20)	(10)	488		493		493	
Balance, December 28, 2013	420	\$ 105	\$ 626	\$ 6,749	57	\$ (2,999)	\$ (936)	\$ 3,545	\$ 62	\$ 3,607	\$ 1,818
Common stock repurchases					6	(329)		(329)		(329)	
Net income				701				701		701	701
Dividends				(330)				(330)	(1)	(331)	
Other comprehensive income							8	8		8	8
Stock compensation			21					21		21	
Stock options exercised and other			6	(7)	(3)	137		136		136	
Balance, June 28, 2014	420	\$ 105	\$ 653	\$ 7,113	60	\$ (3,191)	\$ (928)	\$ 3,752	\$ 61	\$ 3,813	\$ 709

Refer to Notes to Consolidated Financial Statements.

Table of Contents**Kellogg Company and Subsidiaries****CONSOLIDATED STATEMENT OF CASH FLOWS**

(millions)

	Year-to-date period ended	
	June	June
	28,	29,
(unaudited)	2014	2013
Operating activities		
Net income	\$ 701	\$ 663
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	235	226
Postretirement benefit plan expense (benefit)	(45)	(8)
Deferred income taxes	18	9
Other	18	60
Postretirement benefit plan contributions	(37)	(36)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(136)	(112)
Inventories	(55)	91
Accounts payable	30	(38)
Accrued income taxes	7	3
Accrued interest expense	(8)	(6)
Accrued and prepaid advertising, promotion and trade allowances	(12)	(53)
Accrued salaries and wages	(39)	(47)
All other current assets and liabilities	(23)	(47)
Net cash provided by (used in) operating activities	654	705
Investing activities		
Additions to properties	(226)	(238)
Other		(1)
Net cash provided by (used in) investing activities	(226)	(239)
Financing activities		
Net issuances of notes payable	118	71
Issuances of long-term debt	952	645
Reductions of long-term debt	(957)	(760)
Net issuances of common stock	133	408
Common stock repurchases	(329)	(544)
Cash dividends	(331)	(320)
Other	6	20
Net cash provided by (used in) financing activities	(408)	