

KELLOGG CO
Form 10-Q
November 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 September 27, 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 October 25, 2014 355,033,895 shares

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KELLOGG COMPANY

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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)

| | September 27, 2014 | December 28, 2013 * |
|---|-----------------------|------------------------|
| | (unaudited) | |
| Current assets | | |
| Cash and cash equivalents | \$ 426 | \$ 273 |
| Accounts receivable, net | 1,565 | 1,424 |
| Inventories: | | |
| Raw materials and supplies | 348 | 319 |
| Finished goods and materials in process | 860 | 929 |
| Deferred income taxes | 207 | 195 |
| Other prepaid assets | 166 | 127 |
| Total current assets | 3,572 | 3,267 |
| Property, net of accumulated depreciation of \$5,717 and \$5,501 | 3,790 | 3,856 |
| Goodwill | 5,021 | 5,051 |
| Other intangibles, net of accumulated amortization of \$40 and \$34 | 2,327 | 2,367 |
| Pension | 512 | 419 |
| Other assets | 550 | 514 |
| Total assets | \$ 15,772 | \$ 15,474 |
| Current liabilities | | |
| Current maturities of long-term debt | \$ 607 | \$ 289 |
| Notes payable | 1,079 | 739 |
| Accounts payable | 1,466 | 1,432 |
| Accrued advertising and promotion | 497 | 476 |
| Accrued income taxes | 56 | 69 |
| Accrued salaries and wages | 293 | 327 |
| Other current liabilities | 664 | 503 |
| Total current liabilities | 4,662 | 3,835 |
| Long-term debt | 5,963 | 6,330 |
| Deferred income taxes | 943 | 928 |
| Pension liability | 267 | 277 |
| Nonpension postretirement benefits | 62 | 68 |
| Other liabilities | 430 | 429 |

Commitments and contingencies**Equity**

| | | |
|---|------------------|-----------|
| Common stock, \$.25 par value | 105 | 105 |
| Capital in excess of par value | 656 | 626 |
| Retained earnings | 7,161 | 6,749 |
| Treasury stock, at cost | (3,523) | (2,999) |
| Accumulated other comprehensive income (loss) | (1,016) | (936) |
| Total Kellogg Company equity | 3,383 | 3,545 |
| Noncontrolling interests | 62 | 62 |
| Total equity | 3,445 | 3,607 |
| Total liabilities and equity | \$ 15,772 | \$ 15,474 |

* 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 September 27, 2014 | September 28, 2013 | Year-to-date period ended September 27, 2014 | September 28, 2013 |
|---|--|-----------------------|--|-----------------------|
| Net sales | \$ 3,639 | \$ 3,716 | \$ 11,066 | \$ 11,291 |
| Cost of goods sold | 2,347 | 2,266 | 6,859 | 6,971 |
| Selling, general and administrative expense | 927 | 946 | 2,761 | 2,743 |
| Operating profit | 365 | 504 | 1,446 | 1,577 |
| Interest expense | 54 | 56 | 156 | 177 |
| Other income (expense), net | 1 | 4 | 14 | (8) |
| Income before income taxes | 312 | 452 | 1,304 | 1,392 |
| Income taxes | 86 | 124 | 373 | 398 |
| Earnings (loss) from joint ventures | (1) | (2) | (5) | (5) |
| Net income | \$ 225 | \$ 326 | \$ 926 | \$ 989 |
| Net income (loss) attributable to noncontrolling interests | 1 | | 1 | |
| Net income attributable to Kellogg Company | \$ 224 | \$ 326 | \$ 925 | \$ 989 |
| Per share amounts: | | | | |
| Basic | \$ 0.63 | \$ 0.90 | \$ 2.58 | \$ 2.72 |
| Diluted | \$ 0.62 | \$ 0.90 | \$ 2.56 | \$ 2.70 |
| Dividends per share | \$ 0.49 | \$ 0.46 | \$ 1.41 | \$ 1.34 |
| Average shares outstanding: | | | | |
| Basic | 358 | 362 | 359 | 363 |
| Diluted | 360 | 364 | 361 | 366 |
| Actual shares outstanding at period end | | | 355 | 362 |

Refer to Notes to Consolidated Financial Statements.

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

(millions)

| | Quarter ended September 27, 2014 | | | Year-to-date period ended September 27, 2014 | | |
|---|----------------------------------|---------------|-----------|---|---------------|-----------|
| | Pre-tax | Tax (expense) | After-tax | Pre-tax | Tax (expense) | After-tax |
| | amount | benefit | amount | amount | benefit | amount |
| (Results are unaudited) | | | | | | |
| Net income | | | \$ 225 | | | \$ 926 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$ (87) | \$ (17) | (104) | \$ (54) | \$ (17) | (71) |
| Cash flow hedges: | | | | | | |
| Unrealized gain (loss) on cash flow hedges | (2) | 4 | 2 | (26) | 11 | (15) |
| Reclassification to net income | | | | (11) | 3 | (8) |
| Postretirement and postemployment benefits: | | | | | | |
| Amounts arising during the period: | | | | | | |
| Prior service credit (cost) | 19 | (7) | 12 | 10 | (4) | 6 |
| Reclassification to net income: | | | | | | |
| Net experience loss | 1 | | 1 | 3 | | 3 |
| Prior service cost | 2 | (1) | 1 | 8 | (3) | 5 |
| Other comprehensive income (loss) | \$ (67) | \$ (21) | \$ (88) | \$ (70) | \$ (10) | \$ (80) |
| Comprehensive income | | | \$ 137 | | | \$ 846 |

| | Quarter ended September 28, 2013 | | | Year-to-date period ended September 28, 2013 | | |
|---|----------------------------------|---------------|-----------|---|---------------|-----------|
| | Pre-tax | Tax (expense) | After-tax | Pre-tax | Tax (expense) | After-tax |
| | amount | benefit | amount | amount | benefit | amount |
| (Results are unaudited) | | | | | | |
| Net income | | | \$ 326 | | | \$ 989 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$ 63 | | 63 | \$ (28) | | (28) |
| Cash flow hedges: | | | | | | |
| Unrealized gain (loss) on cash flow hedges | (7) | 3 | (4) | 5 | | 5 |
| Reclassification to net income | (2) | | (2) | (4) | | (4) |
| Postretirement and postemployment benefits: | | | | | | |
| Amounts arising during the period: | | | | | | |
| Prior service credit (cost) | (1) | | (1) | (1) | | (1) |
| Reclassification to net income: | | | | | | |
| Net experience loss | 1 | | 1 | 4 | | 4 |
| Prior service cost | 4 | (1) | 3 | 10 | (3) | 7 |
| Other comprehensive income (loss) | \$ 58 | \$ 2 | \$ 60 | \$ (14) | \$ (3) | \$ (17) |
| Comprehensive income | | | \$ 386 | | | \$ 972 |

Refer to Notes to Consolidated Financial Statements.

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

(millions)

| | Common stock | | Capital in excess of par value | Retained earnings | Treasury stock | | Accumulated other comprehensive income (loss) | | Total Kellogg Company equity | Non-controlling interests | Total equity | Total comprehensive income (loss) |
|------------------------------------|--------------|---------------|--------------------------------|-------------------|----------------|-------------------|---|-----------------|------------------------------|---------------------------|-----------------|-----------------------------------|
| | shares | amount | | | shares | amount | income (loss) | equity | | | | |
| (unaudited) | | | | | | | | | | | | |
| Balance, December 29, 2012 | 420 | \$ 105 | \$ 573 | \$ 5,615 | 58 | \$ (2,943) | \$ (946) | \$ 2,404 | \$ 61 | \$ 2,465 | \$ 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 loss | | | | | | | 10 | 10 | | 10 | 10 | 10 |
| Stock compensation | | | 28 | | | | | 28 | | 28 | 28 | |
| Stock options exercised and other | | | 25 | (20) | (10) | 488 | | 493 | | 493 | 493 | |
| Balance, December 28, 2013 | 420 | \$ 105 | \$ 626 | \$ 6,749 | 57 | \$ (2,999) | \$ (936) | \$ 3,545 | \$ 62 | \$ 3,607 | \$ 3,607 | \$ 1,818 |
| Common stock repurchases | | | | | 11 | (690) | | (690) | | (690) | (690) | |
| Net income | | | | 925 | | | | 925 | 1 | 926 | 926 | 926 |
| Dividends | | | | (505) | | | | (505) | (1) | (506) | | |
| Other comprehensive income | | | | | | | (80) | (80) | | (80) | (80) | (80) |
| Stock compensation | | | 21 | | | | | 21 | | 21 | 21 | |
| Stock options exercised and other | | | 9 | (8) | (3) | 166 | | 167 | | 167 | 167 | |
| Balance, September 27, 2014 | 420 | \$ 105 | \$ 656 | \$ 7,161 | 65 | \$ (3,523) | \$ (1,016) | \$ 3,383 | \$ 62 | \$ 3,445 | \$ 3,445 | \$ 846 |

Refer to Notes to Consolidated Financial Statements.

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

(millions)

| (unaudited) | Year-to-date period ended | |
|---|---------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 |
| Operating activities | | |
| Net income | \$ 926 | \$ 989 |
| Adjustments to reconcile net income to operating cash flows: | | |
| Depreciation and amortization | 375 | 340 |
| Postretirement benefit plan expense (benefit) | (73) | (10) |
| Deferred income taxes | 2 | (27) |
| Other | | 73 |
| Postretirement benefit plan contributions | (44) | (42) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Trade receivables | (122) | (113) |
| Inventories | 40 | 52 |
| Accounts payable | 34 | (2) |
| Accrued income taxes | 19 | 52 |
| Accrued interest expense | 48 | 33 |
| Accrued and prepaid advertising, promotion and trade allowances | 10 | (4) |
| Accrued salaries and wages | (33) | (9) |
| All other current assets and liabilities | (5) | 57 |
| Net cash provided by (used in) operating activities | 1,177 | 1,389 |
| Investing activities | | |
| Additions to properties | (355) | (363) |
| Other | 7 | (1) |
| Net cash provided by (used in) investing activities | (348) | (364) |
| Financing activities | | |
| Net issuances (reductions) of notes payable | 339 | (309) |
| Issuances of long-term debt | 952 | 645 |
| Reductions of long-term debt | (959) | (761) |
| Net issuances of common stock | 164 | 450 |
| Common stock repurchases | (690) | (544) |
| Cash dividends | (506) | (486) |
| Other | 12 | 23 |
| Net cash provided by (used in) financing activities | (688) | (982) |
| Effect of exchange rate changes on cash and cash equivalents | 12 | (24) |

| | | |
|---|---------------|--------|
| Increase (decrease) in cash and cash equivalents | 153 | 19 |
| Cash and cash equivalents at beginning of period | 273 | 281 |
| Cash and cash equivalents at end of period | \$ 426 | \$ 300 |

Refer to Notes to Consolidated Financial Statements.

Table of Contents**Notes to Consolidated Financial Statements****for the quarter ended September 27, 2014 (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, comprehensive income, financial position, equity and cash flows for the periods presented. This interim information should be read in conjunction with the financial statements and accompanying footnotes within the Company's 2013 Annual Report on Form 10-K.

The condensed balance sheet data at December 28, 2013 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 September 27, 2014 are not necessarily indicative of the results to be expected for other interim periods or the full year.

Accounts payable

Beginning in 2014, the Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to monitor, and if elected, sell to designated third-party financial institutions, payment obligations of the Company. Participating suppliers may, at their sole discretion, make offers to sell one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into this agreement is to capture overall supplier savings, in the form of pricing, payment terms or vendor funding, created by facilitating suppliers' ability to sell receivables, while providing them with greater working capital flexibility. We have no economic interest in the sale of these suppliers' receivables and no direct financial relationship with the financial institutions concerning these services. The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to sell amounts under this arrangement. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by this agreement for those payment obligations that have been sold by suppliers. As of September 27, 2014, \$188 million of the Company's outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold \$139 million of those payment obligations to participating financial institutions.

New accounting standards

Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. In July 2013, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which provides guidance on financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is expected to eliminate diversity in practice resulting from lack of previously existing guidance. It applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The Company adopted the revised guidance on a prospective basis at the beginning of its 2014 fiscal year, with no significant impact to the Consolidated Financial Statements.

Accounting standards to be adopted in future periods

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. An entity will not restate prior periods if it uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the ASU as compared to the guidance in effect prior to the change, as well as reasons for significant

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changes. The Company will adopt the updated standard in the first quarter of 2017. The Company is currently evaluating the impact that implementing this ASU will have on its financial statements and disclosures, as well as whether it will use the retrospective or modified retrospective method of adoption.

Note 2 Goodwill and other intangible assets

Changes in the carrying amount of goodwill for the year-to-date period ended September 27, 2014, are presented in the following table:

Carrying amount of goodwill

| (millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Consoli- dated |
|---------------------------------|--------------------------|-----------------|-------------------|---------------------------|---------------|------------------|-----------------|-------------------|
| December 28, 2013 | \$ 133 | \$ 3,779 | \$ 82 | \$ 278 | \$ 452 | \$ 89 | \$ 238 | \$ 5,051 |
| Currency translation adjustment | | | | (2) | (26) | (1) | (1) | (30) |
| September 27, 2014 | \$ 133 | \$ 3,779 | \$ 82 | \$ 276 | \$ 426 | \$ 88 | \$ 237 | \$ 5,021 |

Intangible assets subject to amortization

(millions)

| Gross carrying amount | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Consoli- dated |
|---------------------------------|--------------------------|----------------|-------------------|---------------------------|--------------|------------------|-----------------|-------------------|
| December 28, 2013* | \$ 8 | \$ 65 | \$ | \$ 5 | \$ 42 | \$ 6 | \$ 10 | \$ 136 |
| Currency translation adjustment | | | | | (2) | | | (2) |
| September 27, 2014 | \$ 8 | \$ 65 | \$ | \$ 5 | \$ 40 | \$ 6 | \$ 10 | \$ 134 |

Accumulated Amortization

| | | | | | | | | |
|---------------------------|-------------|--------------|-----------|-------------|-------------|-------------|-------------|--------------|
| December 28, 2013* | \$ 8 | \$ 11 | \$ | \$ 4 | \$ 4 | \$ 6 | \$ 1 | \$ 34 |
| Amortization | | 4 | | | 2 | | | 6 |
| September 27, 2014 | \$ 8 | \$ 15 | \$ | \$ 4 | \$ 6 | \$ 6 | \$ 1 | \$ 40 |

Intangible assets subject to amortization, net

| | | | | | | | | |
|---------------------------------|-----------|--------------|-----------|-------------|--------------|-----------|-------------|--------------|
| December 28, 2013 | \$ | \$ 54 | \$ | \$ 1 | \$ 38 | \$ | \$ 9 | \$ 102 |
| Currency translation adjustment | | | | | (2) | | | (2) |
| Amortization | | (4) | | | (2) | | | (6) |
| September 27, 2014 | \$ | \$ 50 | \$ | \$ 1 | \$ 34 | \$ | \$ 9 | \$ 94 |

* Certain fully amortized intangible assets which were no longer utilized by the Company have been written off and revised in the prior period presentation. The impact to reporting segments are as follows (millions): U.S. Morning Foods - \$20; U.S. Snacks - \$5; Europe - \$2; and Latin America - \$1.

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For intangible assets in the preceding table, amortization was \$6 million for both the year-to-date periods ended September 27, 2014 and September 28, 2013. The currently estimated aggregate annual amortization expense for full-year 2014 and each of the four succeeding fiscal years is approximately \$9 million.

Intangible assets not subject to amortization

| (millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Consoli- dated |
|---------------------------------|--------------------------|-----------------|-------------------|---------------------------|---------------|------------------|-----------------|-------------------|
| December 28, 2013 | \$ 63 | \$ 1,625 | \$ | \$ 95 | \$ 482 | \$ | \$ | \$ 2,265 |
| Currency translation adjustment | | | | | (32) | | | (32) |
| September 27, 2014 | \$ 63 | \$ 1,625 | \$ | \$ 95 | \$ 450 | \$ | \$ | \$ 2,233 |

Table of Contents**Note 3 Restructuring and cost reduction activities**

The Company views its continued spending on restructuring and cost reduction activities 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.

The Company has initiated a number of restructuring and cost reduction activities. The most recent and largest program that is currently active is Project K, a four-year efficiency and effectiveness program announced in November 2013. The program is expected to generate a significant amount of savings that will be invested in key strategic areas of focus for the business. The Company expects that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow.

The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories.

During the quarter ended September 27, 2014, the Company recorded total charges of \$92 million across all restructuring and cost reduction activities. The charges were comprised of \$64 million being recorded in cost of goods sold (COGS) and \$28 million recorded in selling, general and administrative (SGA) expense. During the year-to-date period ended September 27, 2014, the Company recorded total charges of \$224 million across all restructuring and cost reduction activities. The charges were comprised of \$120 million being recorded in COGS and \$104 million recorded in SGA expense.

During the quarter ended September 28, 2013 the Company recorded total charges of \$29 million across all restructuring and cost reduction activities. The charges were comprised of \$12 million being recorded in COGS and \$17 million recorded in SGA expense. During the year-to-date period ended September 28, 2013 the Company recorded total charges of \$49 million across all restructuring and cost reduction activities. The charges were comprised of \$23 million being recorded in COGS and \$26 million recorded in SGA expense.

The tables below provide the details for charges across all restructuring and cost reduction activities incurred during the quarters and year-to-date periods ended September 27, 2014 and September 28, 2013 and program costs to date for programs currently active as of September 27, 2014.

| (millions) | Quarter ended | | Year-to-date period ended | | Program costs to date September 27, 2014 |
|------------------------|--------------------|--------------------|---------------------------|--------------------|---|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 | |
| Employee related costs | \$ 22 | \$ 12 | \$ 74 | \$ 17 | \$ 183 |
| Asset related costs | 6 | | 16 | 5 | 25 |
| Asset Impairment | 21 | | 21 | | 87 |
| Other costs | 43 | 17 | 113 | 27 | 163 |
| Total | \$ 92 | \$ 29 | \$ 224 | \$ 49 | \$ 458 |

| (millions) | Quarter ended | | Year-to-date period ended | | Program costs to date September 27, 2014 |
|---------------------|--------------------|--------------------|---------------------------|--------------------|---|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 | |
| U.S. Morning Foods | \$ 15 | \$ 7 | \$ 41 | \$ 12 | \$ 151 |
| U.S. Snacks | 32 | 4 | 42 | 10 | 69 |
| U.S. Specialty | 1 | 1 | 2 | 3 | 7 |
| North America Other | 2 | | 11 | 1 | 23 |
| Europe | 23 | 6 | 63 | 6 | 82 |
| Latin America | 1 | 3 | 6 | 3 | 13 |
| Asia Pacific | 11 | 1 | 22 | 7 | 46 |
| Corporate | 7 | 7 | 37 | 7 | 67 |
| Total | \$ 92 | \$ 29 | \$ 224 | \$ 49 | \$ 458 |

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For the quarter and year-to-date periods ended September 27, 2014, and September 28, 2013, employee related costs consist primarily of severance benefits, asset related costs consist primarily of accelerated depreciation, and other costs consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

The Company currently anticipates that Project K will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital expenditures, estimated to be \$900 million to \$1.1 billion. The Company currently expects the charges will consist of asset-related costs totaling \$450 to \$500 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling \$425 to \$475 million which will include severance, pension and other termination benefits; and other costs totaling \$325 to \$425 million which will consist primarily of charges related to the design and implementation of global business capabilities. A significant portion of other costs are the result of the implementation of global business service centers which are intended to simplify and standardize business support processes. Costs incurred to date related to Project K through September 27, 2014 totaled \$419 million.

The Company currently expects that total pre-tax charges will impact reportable segments as follows: U.S. Morning Foods (approximately 17%), U.S. Snacks (approximately 10%), U.S. Specialty (approximately 1%), North America Other (approximately 3%), Europe (approximately 12%), Latin America (approximately 3%), Asia-Pacific (approximately 6%), and Corporate (approximately 48%). A majority of the costs impacting Corporate relate to additional initiatives to be executed after 2014 that are currently not fully defined. As the development of these initiatives is completed, the Company will update its estimated costs by reportable segment as needed.

At September 27, 2014 reserves for all restructuring and cost reduction activities are reflected in the table below. A substantial portion of these reserves will be paid out in 2014 and 2015 related to severance payments and other costs.

| (millions) | Employee Related Costs | Asset Impairment | Asset Related Costs | Other Costs | Total |
|---|------------------------------|---------------------|---------------------------|----------------|---------------|
| Liability as of December 28, 2013 | \$ 66 | \$ | \$ | \$ 12 | \$ 78 |
| 2014 restructuring charges | 74 | 21 | 16 | 113 | 224 |
| Cash payments | (40) | | (7) | (116) | (163) |
| Non-cash charges and other | 12 | (21) | (9) | | (18) |
| Liability as of September 27, 2014 | \$ 112 | \$ | \$ | \$ 9 | \$ 121 |

Note 4 Equity**Earnings per share**

Basic 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 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 consist principally of employee stock options issued by the Company, and to a lesser extent, certain contingently issuable performance shares. Basic earnings per share is reconciled to diluted earnings per share in the following tables. There were zero and 5 million anti-dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended September 27, 2014, respectively. There were 6 million and 5 million anti-dilutive potential common shares excluded from the reconciliation for the quarter and year-to-date periods ended September 28, 2013, respectively.

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Quarters ended September 27, 2014 and September 28, 2013:

| (millions, except per share data) | Net income attributable to Kellogg Company | Average shares outstanding | Earnings per share |
|-----------------------------------|--|----------------------------|--------------------|
| 2014 | | | |
| Basic | \$ 224 | 358 | \$ 0.63 |
| Dilutive potential common shares | | 2 | (0.01) |
| Diluted | \$ 224 | 360 | \$ 0.62 |
| 2013 | | | |
| Basic | \$ 326 | 362 | \$ 0.90 |
| Dilutive potential common shares | | 2 | |
| Diluted | \$ 326 | 364 | \$ 0.90 |

Year-to-date periods ended September 27, 2014 and September 28, 2013:

| (millions, except per share data) | Net income attributable to Kellogg Company | Average shares outstanding | Earnings per share |
|-----------------------------------|--|----------------------------|--------------------|
| 2014 | | | |
| Basic | \$ 925 | 359 | \$ 2.58 |
| Dilutive potential common shares | | 2 | (0.02) |
| Diluted | \$ 925 | 361 | \$ 2.56 |
| 2013 | | | |
| Basic | \$ 989 | 363 | \$ 2.72 |
| Dilutive potential common shares | | 3 | (0.02) |
| Diluted | \$ 989 | 366 | \$ 2.70 |

In February 2014, the Company's board of directors approved a share repurchase program authorizing the repurchase of up to \$1.5 billion of common stock through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow the Company to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs.

During the year-to-date period ended September 27, 2014, the Company repurchased approximately 11 million shares of common stock for a total of \$690 million. During the year-to-date period ended September 28, 2013, the Company repurchased approximately 9 million shares of common stock for a total of \$544 million.

Comprehensive income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by or distributions to shareholders. Other comprehensive income consists of foreign currency translation adjustments, fair value adjustments associated with cash flow hedges and adjustments for net experience losses and prior service cost related to employee benefit plans.

Prior service credits arising during the period resulted from a change in post-retirement benefits provided to certain employees.

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| (millions) | Quarter ended September 27, 2014 | | | Year-to-date period ended September 27, 2014 | | |
|---|----------------------------------|---------------|-----------|---|---------------|-----------|
| | Pre-tax | Tax (expense) | After-tax | Pre-tax | Tax (expense) | After-tax |
| | amount | benefit | amount | amount | benefit | amount |
| Net income | | | \$ 225 | | | \$ 926 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$ (87) | \$ (17) | (104) | \$ (54) | \$ (17) | (71) |
| Cash flow hedges: | | | | | | |
| Unrealized gain (loss) on cash flow hedges | (2) | 4 | 2 | (26) | 11 | (15) |
| Reclassification to net income | | | | (11) | 3 | (8) |
| Postretirement and postemployment benefits: | | | | | | |
| Amounts arising during the period: | | | | | | |
| Prior service credit (cost) | 19 | (7) | 12 | 10 | (4) | 6 |
| Reclassification to net income: | | | | | | |
| Net experience loss | 1 | | 1 | 3 | | 3 |
| Prior service cost | 2 | (1) | 1 | 8 | (3) | 5 |
| Other comprehensive income (loss) | \$ (67) | \$ (21) | \$ (88) | \$ (70) | \$ (10) | \$ (80) |
| Comprehensive income | | | \$ 137 | | | \$ 846 |

| (millions) | Quarter ended September 28, 2013 | | | Year-to-date period ended September 28, 2013 | | |
|---|----------------------------------|---------------|-----------|---|---------------|-----------|
| | Pre-tax | Tax (expense) | After-tax | Pre-tax | Tax (expense) | After-tax |
| | amount | benefit | amount | amount | benefit | amount |
| Net income | | | \$ 326 | | | \$ 989 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$ 63 | | 63 | \$ (28) | | (28) |
| Cash flow hedges: | | | | | | |
| Unrealized gain (loss) on cash flow hedges | (7) | 3 | (4) | 5 | | 5 |
| Reclassification to net income | (2) | | (2) | (4) | | (4) |
| Postretirement and postemployment benefits: | | | | | | |
| Amounts arising during the period: | | | | | | |
| Prior service credit (cost) | (1) | | (1) | (1) | | (1) |
| Reclassification to net income: | | | | | | |
| Net experience loss | 1 | | 1 | 4 | | 4 |
| Prior service cost | 4 | (1) | 3 | 10 | (3) | 7 |
| Other comprehensive income (loss) | \$ 58 | \$ 2 | \$ 60 | \$ (14) | \$ (3) | \$ (17) |
| Comprehensive income | | | \$ 386 | | | \$ 972 |

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Reclassifications out of Accumulated Other Comprehensive Income (AOCI) for the quarter and year-to-date periods ended September 27, 2014 consisted of the following:

| (millions) Details about AOCI | Amount reclassified | | Line item impacted |
|--|-------------------------------------|--|--------------------------------|
| components | from AOCI | | within Income Statement |
| | Quarter ended September 27, 2014 | Year-to-date period ended September 27, 2014 | |
| (Gain)loss on cash flow hedges: | | | |
| Foreign currency exchange contracts | \$ | \$ (2) | COGS |
| Foreign currency exchange contracts | (2) | (5) | SGA |
| Interest rate contracts | | (9) | Interest expense |
| Commodity contracts | 2 | 5 | COGS |
| | \$ | \$ (11) | Total before tax |
| | | 3 | Tax (expense) benefit |
| | \$ | \$ (8) | Net of tax |
| Amortization of postretirement and postemployment benefits: | | | |
| Net experience loss | \$ 1 | \$ 3 | See Note 7 for further details |
| Prior service cost | 2 | 8 | See Note 7 for further details |
| | \$ 3 | \$ 11 | Total before tax |
| | (1) | (3) | Tax (expense) benefit |
| | \$ 2 | \$ 8 | Net of tax |
| Total reclassifications | \$ 2 | \$ | Net of tax |

Reclassifications out of AOCI for the quarter and year-to-date periods ended September 28, 2013 consisted of the following:

| (millions) Details about AOCI | Amount reclassified | | Line item impacted |
|---|-------------------------------------|--|-------------------------|
| components | from AOCI | | within Income Statement |
| | Quarter ended September 28, 2013 | Year-to-date period ended September 28, 2013 | |
| (Gain) loss on cash flow hedges: | | | |
| Foreign currency exchange contracts | \$ (2) | \$ (7) | COGS |
| Foreign currency exchange contracts | (1) | (1) | SGA |
| Interest rate contracts | (1) | (3) | Interest expense |
| Commodity contracts | 2 | 7 | COGS |
| | \$ (2) | \$ (4) | Total before tax |

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| | | | Tax (expense) benefit |
|---|--------|--------|--------------------------------|
| | \$ (2) | \$ (4) | Net of tax |
| Amortization of postretirement and postemployment benefits: | | | |
| Net experience loss | \$ 1 | \$ 4 | See Note 7 for further details |
| Prior service cost | 4 | 10 | See Note 7 for further details |
| | \$ 5 | \$ 14 | Total before tax |
| | (1) | (3) | Tax (expense) benefit |
| | \$ 4 | \$ 11 | Net of tax |
| Total reclassifications | \$ 2 | \$ 7 | Net of tax |

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Accumulated other comprehensive income (loss) as of September 27, 2014 and December 28, 2013 consisted of the following:

| (millions) | September 27, 2014 | December 28, 2013 |
|--|-----------------------|----------------------|
| Foreign currency translation adjustments | \$ (927) | \$ (856) |
| Cash flow hedges unrealized net gain (loss) | (22) | 1 |
| Postretirement and postemployment benefits: | | |
| Net experience loss | (12) | (15) |
| Prior service cost | (55) | (66) |
| Total accumulated other comprehensive income (loss) | \$ (1,016) | \$ (936) |

Note 5 Debt

The following table presents the components of notes payable at September 27, 2014 and December 28, 2013:

| (millions) | September 27, 2014 | | December 28, 2013 | |
|-------------------------|---------------------|----------------------------|---------------------|----------------------------|
| | Principal amount | Effective interest rate | Principal amount | Effective interest rate |
| U.S. commercial paper | \$ 644 | 0.19% | \$ 249 | 0.22% |
| Europe commercial paper | 313 | 0.18 | 437 | 0.23 |
| Bank borrowings | 122 | | 53 | |
| Total | \$ 1,079 | | \$ 739 | |

In the third quarter of 2014, the Company terminated interest rate swaps with notional amounts totaling \$500 million, which were designated as fair value hedges of its 1.875% fixed rate U.S. Dollar Notes due 2016. The interest rate swaps effectively converted the interest rate on the Notes from fixed to variable and the unrealized loss upon termination of \$2 million will be amortized to interest expense over the remaining term of the Notes.

In May 2014, the Company issued 500 million (approximately \$636 million USD at September 27, 2014, which reflects the discount and translation adjustments) of seven-year 1.75% Euro Notes due 2021, using the proceeds from these Notes for general corporate purposes, which included repayment of a portion of the Company's commercial paper borrowings. The Notes contain customary covenants that limit the ability of the Company and its restricted subsidiaries (as defined) to incur certain liens or enter into certain sale and lease-back transactions, as well as a change of control provision. The Notes were designated as a net investment hedge of the Company's investment in its Europe subsidiary when issued.

In May 2014, the Company issued Cdn. \$300 million (approximately \$271 million USD at September 27, 2014, which reflects the discount and translation adjustments) of three-year 2.05% Canadian Dollar Notes due 2017, using the proceeds from these Notes, together with cash on hand, to repay the Company's Cdn. \$300 million, 2.10% Notes due May 22, 2014 at maturity. The Notes contain customary covenants that limit the ability of the Company and its restricted subsidiaries (as defined) to incur certain liens or enter into certain sale and lease-back transactions, as well as a change of control provision.

In February 2014, the Company entered into an unsecured Five-Year Credit Agreement to replace its existing unsecured Four-Year Credit Agreement, which would have expired in March 2015. The Five-Year Credit Agreement allows the Company to borrow, on a revolving credit basis, up to \$2.0 billion, which includes the ability to obtain letters of credit in an aggregate stated amount not to exceed \$75 million and swingline loans in aggregate principal amounts up to \$200 million in U.S. dollars and \$400 million in Euros. The agreement contains customary covenants and warranties, including specified restrictions on indebtedness, liens and a specified interest coverage ratio. If an event of default occurs, then, to the extent permitted, the administrative agent may terminate the commitments under the credit facility, accelerate any

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outstanding loans under the agreement, and demand the deposit of cash collateral equal to the lender's letter of credit exposure plus interest.

In March 2014, the Company redeemed \$150 million of its 4.0% U.S. Dollar Notes due 2020, \$342 million of its 3.125% U.S. Dollar Debentures due 2022 and \$189 million of its 2.75% U.S. Dollar Notes due 2023. In connection with the debt redemption, the Company incurred \$1 million of interest expense, offset by \$8 million of accelerated gains on interest rate

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hedges previously recorded in accumulated other comprehensive income, and incurred \$5 million of expense, recorded in Other Income, Expense (net), related to acceleration of fees on the redeemed debt and fees related to the tender offer.

The Company has entered into interest rate swaps with notional amounts totaling \$2.4 billion, which effectively converts a portion of the associated U.S. Dollar Notes from fixed rate to floating rate obligations. These derivative instruments are designated as fair value hedges. The effective interest rates on debt obligations resulting from the Company's interest rate swaps as of September 27, 2014 were as follows: (a) seven-year 4.45% U.S. Dollar Notes due 2016 - 3.42%; (b) five-year 1.875% U.S. Dollar Notes due 2016 - 1.58%; (c) five-year 1.75% U.S. Dollar Notes due 2017 - 1.32%; (d) seven-year 3.25% U.S. Dollar Notes due 2018 - 1.84%; (e) ten-year 4.15% U.S. Dollar Notes due 2019 - 2.71%; (f) ten-year 4.00% U.S. Dollar Notes due 2020 - 2.09%; (g) ten-year 3.125% U.S. Dollar Notes due 2022 - 1.32%.

Note 6 Stock compensation

The Company uses various equity-based compensation programs to provide long-term performance incentives for its global workforce. Currently, these incentives consist principally of stock options, and to a lesser extent, executive performance shares, restricted stock units and restricted stock grants. The Company also sponsors a discounted stock purchase plan in the United States and matching-grant programs in several international locations. Additionally, the Company awards restricted stock to its outside directors. The interim information below should be read in conjunction with the disclosures included within the stock compensation footnote of the Company's 2013 Annual Report on Form 10-K.

The Company classifies pre-tax stock compensation expense in SGA expense principally within its corporate operations. For the periods presented, compensation expense for all types of equity-based programs and the related income tax benefit recognized were as follows:

| (millions) | Quarter ended | | Year-to-date period ended | |
|------------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Pre-tax compensation expense | \$ 3 | \$ 10 | \$ 31 | \$ 31 |
| Related income tax benefit | \$ 1 | \$ 4 | \$ 11 | \$ 12 |

As of September 27, 2014, total stock-based compensation cost related to non-vested awards not yet recognized was \$51 million and the weighted-average period over which this amount is expected to be recognized was 2 years.

Stock options

During the year-to-date periods ended September 27, 2014 and September 28, 2013, the Company granted non-qualified stock options to eligible employees as presented in the following activity tables. Terms of these grants and the Company's methods for determining grant-date fair value of the awards were consistent with that described within the stock compensation footnote in the Company's 2013 Annual Report on Form 10-K.

Year-to-date period ended September 27, 2014:

| | Shares (millions) | Weighted- average exercise price | Weighted- average remaining contractual term (yrs.) | Aggregate intrinsic value (millions) |
|-------------------------------------|----------------------|---|--|---|
| Employee and director stock options | | | | |
| Outstanding, beginning of period | 20 | \$ 54 | | |
| Granted | 6 | 60 | | |
| Exercised | (3) | 50 | | |

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| | | | | |
|-----------------------------|-----|-------|-----|--------|
| Forfeitures and expirations | (1) | 58 | | |
| Outstanding, end of period | 22 | \$ 56 | 7.3 | \$ 132 |
| Exercisable, end of period | 11 | \$ 52 | 5.8 | \$ 102 |

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Year-to-date period ended September 28, 2013:

| Employee and director stock options | Shares (millions) | Weighted- average exercise price | Weighted- average remaining contractual term (yrs.) | Aggregate intrinsic value (millions) |
|-------------------------------------|----------------------|---|--|---|
| Outstanding, beginning of period | 25 | \$ 50 | | |
| Granted | 6 | 60 | | |
| Exercised | (10) | 48 | | |
| Forfeitures and expirations | (1) | 55 | | |
| Outstanding, end of period | 20 | \$ 53 | 7.2 | \$ 111 |
| Exercisable, end of period | 10 | \$ 50 | 5.5 | \$ 88 |

The weighted-average fair value of options granted was \$6.70 per share and \$5.92 per share for the year-to-date periods ended September 27, 2014 and September 28, 2013, respectively. The fair value was estimated using the following assumptions:

| | Weighted- average expected volatility | Weighted- average expected term (years) | Weighted- average risk-free interest rate | Dividend yield |
|---|--|---|---|-------------------|
| Grants within the year-to-date period ended September 27, 2014: | 15% | 7.34 | 2.35% | 3.00% |
| Grants within the year-to-date period ended September 28, 2013: | 15% | 7.44 | 1.49% | 2.90% |

The total intrinsic value of options exercised was \$44 million and \$133 million for the year-to-date periods ended September 27, 2014 and September 28, 2013, respectively.

Performance shares

In the first quarter of 2014, the Company granted performance shares to a limited number of senior executive-level employees, which entitle these employees to receive a specified number of shares of the Company's common stock on the vesting date, provided cumulative three-year operating profit and internal net sales growth targets are achieved.

The 2014 target grant currently corresponds to approximately 223,000 shares, with a grant-date fair value of \$54 per share. The actual number of shares issued on the vesting date could range from 0 to 200% of target, depending on actual performance achieved. Based on the market price of the Company's common stock at September 27, 2014, the maximum future value that could be awarded to employees on the vesting date for all outstanding performance share awards was as follows:

| (millions) | September 27, 2014 |
|------------|-----------------------|
| 2012 Award | \$ 22 |
| 2013 Award | \$ 24 |
| 2014 Award | \$ 28 |

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The 2011 performance share award, payable in stock, was settled at 60% of target in February 2014 for a total dollar equivalent of \$3 million.

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The Company sponsors a number of U.S. and foreign pension plans, as well as other nonpension postretirement and postemployment plans to provide various benefits for its employees. These plans are described within the footnotes to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K. Components of Company plan benefit expense for the periods presented are included in the tables below.

Pension

| (millions) | Quarter ended | | Year-to-date period ended | |
|---|--------------------|--------------------|---------------------------|--------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Service cost | \$ 27 | \$ 33 | \$ 80 | \$ 101 |
| Interest cost | 56 | 51 | 169 | 151 |
| Expected return on plan assets | (104) | (90) | (313) | (269) |
| Amortization of unrecognized prior service cost | 3 | 4 | 10 | 12 |
| Total pension expense (income) | \$ (18) | \$ (2) | \$ (54) | \$ (5) |

Other nonpension postretirement

| (millions) | Quarter ended | | Year-to-date period ended | |
|--|--------------------|--------------------|---------------------------|--------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Service cost | \$ 7 | \$ 8 | \$ 21 | \$ 25 |
| Interest cost | 13 | 13 | 40 | 37 |
| Expected return on plan assets | (24) | (21) | (73) | (65) |
| Amortization of unrecognized prior service cost | (1) | | (2) | (2) |
| Recognized net loss | 7 | | 7 | |
| Curtailement gain | (12) | | (12) | |
| Total postretirement benefit expense (income) | \$ (10) | \$ | \$ (19) | \$ (5) |

Postemployment

| (millions) | Quarter ended | | Year-to-date period ended | |
|---|--------------------|--------------------|---------------------------|--------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Service cost | \$ 2 | \$ 2 | \$ 6 | \$ 5 |
| Interest cost | 1 | 1 | 3 | 3 |
| Recognized net loss | 1 | 1 | 3 | 4 |
| Total postemployment benefit expense | \$ 4 | \$ 4 | \$ 12 | \$ 12 |

During the quarter ended September 27, 2014, the Company recognized a curtailment gain of \$12 million in conjunction with Project K restructuring activity. In addition, the Company remeasured the benefit obligation for the impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate.

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Company contributions to employee benefit plans are summarized as follows:

| (millions) | Pension | Nonpension postretirement | Total |
|-----------------------------------|---------|------------------------------|-------|
| Quarter ended: | | | |
| September 27, 2014 | \$ 5 | \$ 2 | \$ 7 |
| September 28, 2013 | \$ 2 | \$ 4 | \$ 6 |
| Year-to-date period ended: | | | |
| September 27, 2014 | \$ 34 | \$ 10 | \$ 44 |
| September 28, 2013 | \$ 30 | \$ 12 | \$ 42 |
| Full year: | | | |
| Fiscal year 2014 (projected) | \$ 43 | \$ 14 | \$ 57 |
| Fiscal year 2013 (actual) | \$ 34 | \$ 14 | \$ 48 |

Plan funding strategies may be modified in response to management's evaluation of tax deductibility, market conditions, and competing investment alternatives.

Note 8 Income taxes

The consolidated effective tax rate for the quarters ended September 27, 2014 and September 28, 2013 were 27.7% and 27.4%, respectively. The consolidated effective tax rate for both year-to-date periods ended September 27, 2014 and September 28, 2013 was 28.6%.

As of September 27, 2014, the Company classified \$6 million of unrecognized tax benefits as a net current liability. Management's estimate of reasonably possible changes in unrecognized tax benefits during the next twelve months is comprised of the current liability balance which is expected to be settled within one year, offset by approximately \$8 million of projected additions related primarily to ongoing intercompany transfer pricing activity. Management is currently

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unaware of any issues under review that could result in significant additional payments, accruals or other material deviation in this estimate.

Following is a reconciliation of the Company's total gross unrecognized tax benefits for the year-to-date period ended September 27, 2014; \$61 million of this total represents the amount that, if recognized, would affect the Company's effective income tax rate in future periods.

| | |
|--|--------------|
| (millions) | |
| December 28, 2013 | \$ 79 |
| Tax positions related to current year: | |
| Additions | 7 |
| Reductions | |
| Tax positions related to prior years: | |
| Additions | 6 |
| Reductions | (9) |
| Settlements | 1 |
| September 27, 2014 | \$84 |

For the year-to-date period ended September 27, 2014 the Company recognized an increase of \$3 million for tax-related interest and penalties. The Company recognized no cash settlements during the current quarter. The accrual balance was \$20 million at September 27, 2014.

Note 9 Derivative instruments and fair value measurements

The Company is exposed to certain market risks such as changes in interest rates, foreign currency exchange rates, and commodity prices, which exist as a part of its ongoing business operations. Management uses derivative and non-derivative financial instruments and commodity instruments, including futures, options, and swaps, where appropriate, to manage these risks. Instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged.

The Company designates derivatives as cash flow hedges, fair value hedges, net investment hedges, and uses other contracts to reduce volatility in interest rates, foreign currency and commodities. As a matter of policy, the Company does not engage in trading or speculative hedging transactions.

Total notional amounts of the Company's derivative instruments as of September 27, 2014 and December 28, 2013 were as follows:

| | | |
|-------------------------------------|-------------------------------|----------------------|
| (millions) | September 27, 2014 | December 28, 2013 |
| Foreign currency exchange contracts | \$ 735 | \$ 517 |
| Interest rate contracts | 2,997 | 2,400 |
| Commodity contracts | 519 | 361 |
| Total | \$ 4,251 | \$ 3,278 |

Following is a description of each category in the fair value hierarchy and the financial assets and liabilities of the Company that were included in each category at September 27, 2014 and December 28, 2013, measured on a recurring basis.

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market. For the Company, level 1 financial assets and liabilities consist primarily of commodity derivative contracts.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. For the Company, level 2 financial assets and liabilities consist of interest rate swaps and over-the-counter commodity and currency contracts.

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The Company's calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve. Over-the-counter commodity derivatives are valued using an income approach based on the commodity index prices less the contract rate multiplied by the notional amount. Foreign currency contracts are valued using an income approach based on forward rates less the contract rate multiplied by the

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notional amount. The Company's calculation of the fair value of level 2 financial assets and liabilities takes into consideration the risk of nonperformance, including counterparty credit risk.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Company did not have any level 3 financial assets or liabilities as of September 27, 2014 or December 28, 2013.

The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheet on a recurring basis as of September 27, 2014 and December 28, 2013:

Derivatives designated as hedging instruments

| (millions) | September 27, 2014 | | | December 28, 2013 | | |
|--------------------------------------|--------------------|---------|---------|-------------------|---------|---------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Foreign currency exchange contracts: | | | | | | |
| Other prepaid assets | \$ | \$ 14 | \$ 14 | \$ | \$ 7 | \$ 7 |
| Total assets | \$ | \$ 14 | \$ 14 | \$ | \$ 7 | \$ 7 |
| Liabilities: | | | | | | |
| Foreign currency exchange contracts: | | | | | | |
| Other current liabilities | \$ | \$ (6) | \$ (6) | \$ | \$ (8) | \$ (8) |
| Interest rate contracts: | | | | | | |
| Other current liabilities | | (25) | (25) | | | |
| Other liabilities (a) | | (38) | (38) | | (59) | (59) |
| Commodity contracts: | | | | | | |
| Other current liabilities | | (10) | (10) | | (9) | (9) |
| Other liabilities | | (12) | (12) | | (19) | (19) |
| Total liabilities | \$ | \$ (91) | \$ (91) | \$ | \$ (95) | \$ (95) |

(a) The fair value of the related hedged portion of the Company's long-term debt, a level 2 liability, was \$2.5 billion as of September 27, 2014 and December 28, 2013.

Derivatives not designated as hedging instruments

| (millions) | September 27, 2014 | | | December 28, 2013 | | |
|----------------------|--------------------|---------|-------|-------------------|---------|-------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets: | | | | | | |
| Commodity contracts: | | | | | | |
| Other prepaid assets | \$ | \$ | \$ | \$ 3 | \$ | \$ 3 |
| Total assets | \$ | \$ | \$ | \$ 3 | \$ | \$ 3 |

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| | | | | | | |
|---------------------------|---------|----|---------|--------|----|--------|
| Liabilities: | | | | | | |
| Commodity contracts: | | | | | | |
| Other current liabilities | \$ (35) | \$ | \$ (35) | \$ (7) | \$ | \$ (7) |
| Total liabilities | \$ (35) | \$ | \$ (35) | \$ (7) | \$ | \$ (7) |

During the second quarter of 2014, the Company designated a portion of its outstanding foreign currency denominated long-term debt as a net investment hedge of a portion of the Company's investment in its subsidiaries foreign currency denominated net assets. The carrying value of this debt was \$639 million as of September 27, 2014.

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The Company has elected to not offset the fair values of derivative assets and liabilities executed with the same counterparty that are generally subject to enforceable netting agreements. However, if the Company were to offset and record the asset and liability balances of derivatives on a net basis, the amounts presented in the Consolidated Balance Sheet as of September 27, 2014 and December 28, 2013 would be adjusted as detailed in the following table:

As of September 27, 2014:

| | Amounts Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet | | |
|------------------------------------|--|--|---|----------------|
| | | Financial Instruments | Cash Collateral Received/ Posted | Net Amount |
| Total asset derivatives | \$ 14 | \$ (11) | \$ | \$ 3 |
| Total liability derivatives | \$ (126) | \$ 11 | \$ 64 | \$ (51) |

As of December 28, 2013:

| | Amounts Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet | | |
|------------------------------------|---|---|---|----------------|
| | | Financial Instruments | Cash Collateral Received/ Posted | Net Amount |
| Total asset derivatives | \$ 10 | \$ (10) | \$ | \$ |
| Total liability derivatives | \$ (102) | \$ 10 | \$ 21 | \$ (71) |

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The effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the quarters ended September 27, 2014 and September 28, 2013 was as follows:

Derivatives in fair value hedging relationships

| (millions) | Location of gain (loss) recognized in income | Gain (loss) recognized in | |
|-------------------------------------|--|-----------------------------|---------------|
| | | income (a) Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency exchange contracts | Other income (expense), net | \$ 1 | \$ (1) |
| Interest rate contracts | Interest expense | 4 | (3) |
| Total | | \$ 5 | \$ (4) |

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives in cash flow hedging relationships

| (millions) | Gain (loss) recognized in AOCI | | Location of gain (loss) reclassified from AOCI | Gain (loss) reclassified from AOCI into income | | Location of gain (loss) recognized in income (a) | Gain (loss) recognized in income (a) | |
|-------------------------------------|--------------------------------|---------------|--|--|---------------|--|--------------------------------------|---------------|
| | Sep. 27, 2014 | Sep. 28, 2013 | | Sep. 27, 2014 | Sep. 28, 2013 | | Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency exchange contracts | \$ 16 | \$ (4) | COGS | \$ 2 | \$ 2 | Other income (expense), net | \$ (1) | \$ |
| Foreign currency exchange contracts | 3 | (3) | SGA expense | 2 | 1 | Other income (expense), net | | |
| Interest rate contracts | (20) | | Interest expense | 1 | 1 | N/A | | |
| Commodity contracts | (1) | | COGS | (2) | (2) | Other income (expense), net | | |
| Total | \$ (2) | \$ (7) | | \$ 2 | \$ 2 | | \$ (1) | \$ |

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives and non-derivatives in net investment hedging relationships

| (millions) | Gain (loss) recognized in | |
|---|---------------------------|---------------|
| | AOCI Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency denominated long-term debt | \$ 42 | \$ |

Total \$ 42 \$

Derivatives not designated as hedging instruments

| (millions) | Location of gain (loss) recognized in income | Gain (loss) recognized in income | |
|-------------------------------------|--|--|--------|
| | | Sep. 27, 2014 | |
| | | Sep. 28, 2013 | |
| Foreign currency exchange contracts | Other income (expense), net | \$ 1 | \$ 1 |
| Commodity contracts | COGS | (61) | (2) |
| Total | | \$ (60) | \$ (1) |

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The effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the year-to-date periods ended September 27, 2014 and September 28, 2013 were as follows:

Derivatives in fair value hedging relationships

| (millions) | Location of gain (loss) recognized in income | Gain (loss) recognized in income(a) | |
|-------------------------------------|---|---|------------------|
| | | Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency exchange contracts | Other income (expense), net | \$ 3 | \$ 2 |
| Interest rate contracts | Interest expense | 13 | (2) |
| Total | | \$ 16 | \$ |

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives in cash flow hedging relationships

| (millions) | Gain (loss) recognized in AOCI | | Location of gain (loss) reclassified from AOCI | Gain (loss) reclassified from AOCI into income | | Location of gain (loss) recognized in income (a) | Gain (loss) recognized in income(a) | |
|-------------------------------------|--------------------------------------|------------------|--|--|------------------|--|---|------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 | | Sep. 27, 2014 | Sep. 28, 2013 | | Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency exchange contracts | \$ 13 | \$ 8 | COGS | \$ 2 | \$ 7 | Other income (expense), net | \$ (3) | \$ |
| Foreign currency exchange contracts | 4 | (2) | SGA expense | 5 | 1 | Other income (expense), net | | |
| Interest rate contracts | (43) | | Interest expense | 9 | 3 | N/A | | |
| Commodity contracts | | (1) | COGS | (5) | (7) | Other income (expense), net | | |
| Total | \$ (26) | \$ 5 | | \$ 11 | \$ 4 | | \$ (3) | \$ |

(a) Includes the ineffective portion and amount excluded from effectiveness testing.

Derivatives and non-derivatives in net investment hedging relationships

| (millions) | AOCI | |
|---|------------------|------------------|
| | Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency denominated long-term debt | \$ 47 | \$ |
| Total | \$ 47 | \$ |

Derivatives not designated as hedging instruments

| (millions) | Location of gain (loss) recognized in income | Gain (loss) recognized in income | |
|-------------------------------------|--|--|------------------|
| | | Sep. 27, 2014 | Sep. 28, 2013 |
| Foreign currency exchange contracts | COGS | \$ | \$ 2 |
| Foreign currency exchange contracts | Other income (expense), net | (1) | |
| Interest rate contracts | Interest expense | (4) | |
| Commodity contracts | COGS | (66) | (26) |
| Total | | \$ (71) | \$ (24) |

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During the next 12 months, the Company expects \$2 million of net deferred losses reported in AOCI at September 27, 2014 to be reclassified to income, assuming market rates remain constant through contract maturities.

Certain of the Company's derivative instruments contain provisions requiring the Company to post collateral on those derivative instruments that are in a liability position if the Company's credit rating is at or below BB+ (S&P), or Baa1 (Moody's). The fair value of all derivative instruments with credit-risk-related contingent features in a liability position on September 27, 2014 was \$79 million. If the credit-risk-related contingent features were triggered as of September 27, 2014, the Company would be required to post additional collateral of \$64 million. In addition, certain derivative instruments contain provisions that would be triggered in the event the Company defaults on its debt agreements. There were no collateral posting requirements as of September 27, 2014 triggered by credit-risk-related contingent features, however, there was \$15 million of collateral posted in connection with reciprocal collateralization agreements as discussed under Counterparty credit risk concentration and collateral requirements below.

Fair Value Measurements on a Nonrecurring Basis

As part of Project K the Company will be consolidating the usage of and disposing certain long-lived assets, including manufacturing facilities and Corporate owned assets over the term of the program. See Note 3 for more information regarding Project K.

In the quarter ended September 27, 2014, long-lived assets of \$24 million, related to a manufacturing facility in our U.S. Snacks segment, were written down to an estimated fair value of \$3 million due to Project K activities. The Company's calculation of the fair value of long-lived assets is based on Level 3 inputs, including market comparables, market trends and the condition of the assets.

The following table presents level 3 assets that were measured at fair value on the Consolidated Balance Sheet on a nonrecurring basis as of September 27, 2014:

| (millions) | Fair Value | Total Loss |
|-------------------|-------------|----------------|
| Description: | | |
| Long-lived assets | \$ 3 | \$ (21) |
| Total | \$ 3 | \$ (21) |

Financial instruments

The carrying values of the Company's short-term items, including cash, cash equivalents, accounts receivable, accounts payable and notes payable approximate fair value. The fair value of the Company's long-term debt, which are level 2 liabilities, is calculated based on broker quotes and was as follows at September 27, 2014:

| (millions) | Fair Value | Carrying Value |
|--------------------------------------|-----------------|-----------------|
| Current maturities of long-term debt | \$ 607 | \$ 607 |
| Long-term debt | 6,471 | 5,963 |
| Total | \$ 7,078 | \$ 6,570 |

Counterparty credit risk concentration and collateral requirements

The Company is exposed to credit loss in the event of nonperformance by counterparties on derivative financial and commodity contracts. Management believes a concentration of credit risk with respect to derivative counterparties is limited due to the credit ratings and use of master netting and reciprocal collateralization agreements with the counterparties and the use of exchange-traded commodity contracts.

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Master netting agreements apply in situations where the Company executes multiple contracts with the same counterparty. Certain counterparties represent a concentration of credit risk to the Company. If those counterparties fail to perform according to the terms of derivative contracts, this would result in a loss to the Company. As of September 27, 2014, the Company was not in a significant net asset position with any counterparties with which a master netting agreement would apply.

For certain derivative contracts, reciprocal collateralization agreements with counterparties call for the posting of collateral in the form of cash, treasury securities or letters of credit if a fair value loss position to the Company or its counterparties exceeds a certain amount. In addition, the Company is required to maintain cash margin accounts in connection with its open positions for exchange-traded commodity derivative instruments executed with the counterparty that are subject to enforceable netting agreements. As of September 27, 2014 the Company had posted collateral of \$15 million in the form of cash, which was reflected as an increase in accounts receivable, net on the Consolidated Balance Sheet. As of September 27, 2014 the Company posted \$49 million in margin deposits for exchange-traded commodity derivative instruments, which was reflected as an increase in accounts receivable, net.

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Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. However, the Company conducts a disproportionate amount of business with a small number of large multinational grocery retailers, with the five largest accounts encompassing approximately 27% of consolidated trade receivables at September 27, 2014.

Note 10 Contingencies

In connection with the Company's on-going labor negotiations with the union representing the work-force at our Memphis, TN cereal production facility, the National Labor Relations Board filed a complaint alleging unfair labor practices under the National Labor Relations Act in March 2014. In July, 2014, a U.S. District Court judge ruled that the Memphis employees were entitled to return to work while the underlying litigation continues and employees have subsequently returned to work. This ruling is not expected to have a material effect on the production or distribution of products from the Memphis, TN facility or a material financial impact on the Company. As of September 27, 2014, the Company has not recorded a liability related to this matter due to the uncertainty of any potential outcome. The Company will continue to evaluate the likelihood of potential outcomes for this case as the litigation continues.

Note 11 Reportable segments

Kellogg Company is the world's leading producer of cereal, second largest producer of cookies and crackers, and a leading producer of savory snacks and frozen foods. Additional product offerings include toaster pastries, cereal bars, fruit-flavored snacks and veggie foods. Kellogg products are manufactured and marketed globally. Principal markets for these products include the United States and United Kingdom.

The Company currently manages its operations through eight operating segments that are based on product category or geographic location. These operating segments are evaluated for similarity with regards to economic characteristics, products, production processes, types or classes of customers, distribution methods and regulatory environments to determine if they can be aggregated into reportable segments. The reportable segments are discussed in greater detail below.

U.S. Morning Foods includes cereal, toaster pastries, health and wellness bars, and beverages.

U.S. Snacks includes products such as cookies, crackers, cereal bars, savory snacks and fruit-flavored snacks.

U.S. Specialty includes the food service, convenience and Girl Scouts businesses. The food service business is mostly non-commercial, servicing institutions such as schools and hospitals.

North America Other includes the U.S. Frozen and Canada operating segments. As these operating segments are not considered economically similar enough to aggregate with other operating segments and are immaterial for separate disclosure, they have been grouped together as a single reportable segment.

The three remaining reportable segments are based on geographic location – Europe, which consists principally of European countries; Latin America, which is comprised of Central and South America and includes Mexico; and Asia Pacific, which is comprised of South Africa, Australia and other Asian and Pacific markets.

The measurement of reportable segment results is based on segment operating profit which is generally consistent with the presentation of operating profit in the Consolidated Statement of Income. Intercompany transactions between operating segments were insignificant in all periods presented.

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| (millions) | Quarter ended | | Year-to-date period ended | |
|---------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Net sales | | | | |
| U.S. Morning Foods | \$ 841 | \$ 883 | \$ 2,522 | \$ 2,657 |
| U.S. Snacks | 849 | 886 | 2,645 | 2,704 |
| U.S. Specialty | 270 | 281 | 918 | 932 |
| North America Other | 369 | 382 | 1,111 | 1,173 |
| Europe | 726 | 729 | 2,206 | 2,144 |
| Latin America | 320 | 302 | 918 | 914 |
| Asia Pacific | 264 | 253 | 746 | 767 |
| Consolidated | \$ 3,639 | \$ 3,716 | \$ 11,066 | \$ 11,291 |
| Operating profit | | | | |
| U.S. Morning Foods | \$ 118 | \$ 132 | \$ 389 | \$ 475 |
| U.S. Snacks | 67 | 105 | 292 | 341 |
| U.S. Specialty | 59 | 70 | 209 | 210 |
| North America Other | 58 | 70 | 192 | 223 |
| Europe | 61 | 74 | 181 | 220 |
| Latin America | 50 | 39 | 145 | 129 |
| Asia Pacific | 16 | 25 | 32 | 63 |
| Total Reportable Segments | 429 | 515 | 1,440 | 1,661 |
| Corporate | (64) | (11) | 6 | (84) |
| Consolidated | \$ 365 | \$ 504 | \$ 1,446 | \$ 1,577 |

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KELLOGG COMPANY

PART I FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Kellogg Company, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 1 of this report.

For more than 100 years, consumers have counted on Kellogg for great-tasting, high-quality and nutritious foods. Kellogg is the world's leading producer of cereal, second largest producer of cookies and crackers, and a leading producer of savory snacks and frozen foods. Additional product offerings include toaster pastries, cereal bars, fruit-flavored snacks and veggie foods. Kellogg products are manufactured and marketed globally.

We manage our operations through eight operating segments that are based on product category or geographic location. These operating segments are evaluated for similarity with regards to economic characteristics, products, production processes, types or classes of customers, distribution methods and regulatory environments to determine if they can be aggregated into reportable segments. We report results of operations in the following reportable segments: U.S. Morning Foods; U.S. Snacks; U.S. Specialty; North America Other; Europe; Latin America; and Asia Pacific. The reportable segments are discussed in greater detail in Note 11 within Notes to Consolidated Financial Statements.

We manage our Company for sustainable performance defined by our long-term annual growth targets. These targets are 3 to 4% for internal net sales, mid-single-digit (4 to 6%) for underlying internal operating profit, and high-single-digit (7 to 9%) for currency-neutral comparable diluted net earnings per share.

During 2013 we announced Project K, a four-year efficiency and effectiveness program. The program is expected to generate a significant amount of savings that will be invested in key strategic areas of focus for the business. We expect that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow. See the Restructuring and cost reduction activities section for more information.

Comparability

Internal net sales growth excludes the impact of foreign currency translation and, if applicable, acquisitions, dispositions and integration costs associated with the acquisition of the *Pringles*[®] business (Pringles).

Comparability of certain financial measures is impacted significantly by two types of charges: 1) Mark-to-market adjustments that are recorded for pensions and commodity derivative contracts; and 2) Charges related to restructuring and cost reduction activities. To provide increased transparency and assist in understanding our underlying operating performance we use non-GAAP financial measures within the MD&A that exclude the impact of these charges. These non-GAAP financial measures include underlying gross margin, underlying gross profit, underlying SGA%, underlying operating margin, underlying operating profit, underlying operating profit growth, underlying income taxes, underlying effective tax rate, and underlying net income attributable to Kellogg Company.

Underlying internal operating profit growth excludes the impact of foreign currency translation and, if applicable, acquisitions, dispositions, integration costs associated with the acquisition of Pringles, mark-to-market adjustments, and charges related to restructuring and cost reduction activities.

Additionally, integration costs associated with the acquisition of Pringles are excluded from comparable basic earnings per share (EPS), comparable diluted EPS, and comparable diluted EPS growth.

Financial results

For the quarter ended September 27, 2014, our reported net sales declined by 2.1% and internal net sales declined by 1.7%. We experienced internal net sales declines in U.S. Morning Foods, U.S. Snacks, U.S. Specialty, North America Other, and Europe. Internal net sales grew in

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Latin America and Asia Pacific. Reported operating profit declined by 27.5%, and underlying internal operating profit declined by 1.8%. The decline in underlying internal operating profit was driven by softer sales primarily in U.S. Morning Foods, U.S. Snacks, and U.S. Specialty. This was partially offset by net cost deflation, continued discipline in overhead control, reduced incentive compensation to align with performance, and slightly lower investment in brand-building.

Reported diluted EPS of \$.62 for the quarter was down 31.1% compared to the prior year of \$.90. Comparable diluted EPS of \$.94 for the quarter was down 3.1% compared to the prior year of \$.97.

As a result of 2014 incentive compensation being reduced in the current quarter to align with performance and the anticipated re-establishment of usual incentive compensation levels in 2015, we expect that increased incentive compensation will result in a 2%-3% headwind for full-year results in 2015.

Table of Contents**Reconciliation of certain non-GAAP Financial Measures**

| | Quarter ended | | Year-to-date period ended | |
|---|-----------------------|-----------------------|---------------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Consolidated results | | | | |
| Reported operating profit | \$ 365 | \$ 504 | \$ 1,446 | \$ 1,577 |
| Mark-to-market (a) | (66) | 2 | 38 | (59) |
| Restructuring and cost reduction activities (b) | (92) | (29) | (224) | (49) |
| Underlying operating profit (c) | \$ 523 | \$ 531 | \$ 1,632 | \$ 1,685 |
| Reported income taxes | \$ 86 | \$ 124 | \$ 373 | \$ 398 |
| Mark-to-market (a) | (25) | | 7 | (19) |
| Restructuring and cost reduction activities (b) | (24) | (8) | (62) | (15) |
| Underlying income taxes (c) | \$ 135 | \$ 132 | \$ 428 | \$ 432 |
| Reported effective income tax rate | 27.7% | 27.4% | 28.6% | 28.6% |
| Mark-to-market (a) | (1.3)% | | (0.3)% | (0.2)% |
| Restructuring and cost reduction activities (b) | 0.5% | (0.3)% | 0.2% | 0.0% |
| Underlying effective income tax rate (c) | 28.5% | 27.7% | 28.7% | 28.8% |
| Reported net income attributable to Kellogg Company | \$ 225 | \$ 326 | \$ 926 | \$ 989 |
| Mark-to-market (a) | (41) | 2 | 31 | (40) |
| Restructuring and cost reduction activities (b) | (68) | (21) | (162) | (34) |
| Underlying net income attributable to Kellogg Company (c) | \$ 334 | \$ 345 | \$ 1,057 | \$ 1,063 |
| Reported basic EPS | \$ 0.63 | \$ 0.90 | \$ 2.58 | \$ 2.72 |
| Mark-to-market (a) | (0.11) | | 0.09 | (0.12) |
| Pringles integration costs | (0.02) | (0.02) | (0.05) | (0.09) |
| Restructuring and cost reduction activities (b) | (0.19) | (0.05) | (0.45) | (0.09) |
| Comparable basic EPS (d) | \$ 0.95 | \$ 0.97 | \$ 2.99 | \$ 3.02 |
| Comparable basic EPS growth (d) | (2.1)% | 2.1% | (1.0)% | 1.3% |
| Reported diluted EPS | \$ 0.62 | \$ 0.90 | \$ 2.56 | \$ 2.70 |
| Mark-to-market (a) | (0.11) | | 0.08 | (0.12) |
| Pringles integration costs | (0.02) | (0.02) | (0.05) | (0.09) |
| Restructuring and cost reduction activities (b) | (0.19) | (0.05) | (0.45) | (0.09) |
| Comparable diluted EPS (d) | \$ 0.94 | \$ 0.97 | \$ 2.98 | \$ 3.00 |
| Comparable diluted EPS growth (d) | (3.1)% | 2.1% | (0.7)% | 1.0% |

- (a) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013 and 2012. These amounts have been recognized in the first quarter of 2014 and 2013, respectively. During the third quarter of 2014, we remeasured the benefit obligation for an impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (b) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The 2013 periods presented have been recast to exclude all restructuring and cost reduction activities from underlying and comparable results. Previously, only costs associated with Project K were excluded from underlying and comparable results.
- (c) Underlying operating profit, underlying income taxes, underlying effective income tax rate, and underlying net income attributable to Kellogg Company are non-GAAP measures that exclude the impact of pension and commodity mark-to-market adjustments and restructuring and cost reduction activities. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding underlying operating performance. These non-GAAP measures are reconciled directly to the comparable measures in accordance with U.S. GAAP within this table.
- (d) Comparable EPS is a non-GAAP measure that excludes the impact of mark-to-market adjustments on pension plans and commodity contracts, the impact of Project K costs, and the impact of integration costs related to the acquisition of the Pringles business.

Table of Contents**Net sales and operating profit**

The following tables provide an analysis of net sales and operating profit performance for the third quarter of 2014 versus 2013:

| (dollars in millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Corp- orate | Consol- idated |
|----------------------------------|-----------------------|----------------|-------------------|---------------------------|---------------|------------------|-----------------|----------------|-------------------|
| 2014 net sales | \$ 841 | \$ 849 | \$ 270 | \$ 369 | \$ 726 | \$ 320 | \$ 264 | \$ | \$ 3,639 |
| 2013 net sales | \$ 883 | \$ 886 | \$ 281 | \$ 382 | \$ 729 | \$ 302 | \$ 253 | \$ | \$ 3,716 |
| % change - 2014 vs. 2013: | | | | | | | | | |
| As Reported | (4.7)% | (4.2)% | (4.1)% | (3.5)% | (0.6)% | 6.2% | 4.8% | % | (2.1)% |
| Acquisitions /Divestitures | % | % | % | % | % | % | % | % | % |
| Integration impact (a) | % | % | % | % | % | % | .6% | % | % |
| Foreign currency impact | % | % | % | (2.4)% | % | (1.1)% | (.8)% | % | (.4)% |

Internal business (b) (4.7)% (4.2)% (4.1)% (1.1)% (0.6)% 7.3% 5.0% % (1.7)%

| (dollars in millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Corp- orate | Consol- idated |
|------------------------------|-----------------------|----------------|-------------------|---------------------------|--------------|------------------|-----------------|----------------|-------------------|
| 2014 operating profit | \$ 118 | \$ 67 | \$ 59 | \$ 58 | \$ 61 | \$ 50 | \$ 16 | \$ (64) | \$ 365 |
| 2013 operating profit | \$ 132 | \$ 105 | \$ 70 | \$ 70 | \$ 74 | \$ 39 | \$ 25 | \$ (11) | \$ 504 |

% change - 2014 vs. 2013:

| | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|--------------|----------------|-----------------|----------------|
| As Reported | (10.5)% | (36.2)% | (14.2)% | (18.2)% | (17.4)% | 29.5% | (32.1)% | (512.6)% | (27.5)% |
| Acquisitions/Divestitures | % | % | % | % | % | % | % | % | % |
| Integration impact (a) | % | % | % | .3% | .8% | .9% | 3.8% | (27.4)% | .5% |
| Foreign currency impact | (.1)% | % | % | (2.6)% | .6% | (.8)% | (1.4)% | 16.1% | (.3)% |
| Mark-to-market (c) | % | % | % | % | % | % | % | (611.6)% | (13.1)% |
| Restructuring and cost reduction activities (d) | (6.7)% | (26.3)% | .2% | (2.7)% | (22.6)% | 9.6% | (39.8)% | (149.3)% | (12.8)% |
| Underlying internal (e) | (3.7)% | (9.9)% | (14.4)% | (13.2)% | 3.8% | 19.8% | 5.3% | 259.6% | (1.8)% |

(a) Includes impact of integration costs associated with the Pringles acquisition.

(b) Internal net sales growth for 2014 excludes the impact of acquisitions, divestitures, integration costs and impact of foreign currency translation. Internal net sales growth is a non-GAAP financial measure which is reconciled to the directly comparable measure in accordance with U.S. GAAP within these tables.

(c) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013 and 2012. These amounts have been recognized in the first quarter of 2014 and 2013, respectively. During the third quarter of 2014, we remeasured the benefit obligation for an impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting

- gains/losses are recognized in the quarter they occur.
- (d) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The 2013 periods presented have been recast to exclude all restructuring and cost reduction activities from underlying and comparable results. Previously, only costs associated with Project K were excluded from underlying and comparable results.
 - (e) Underlying internal operating profit growth excludes the impact of foreign currency translation, pension plans and commodity contracts mark-to-market adjustments, costs related to restructuring and cost reduction activities, and if applicable, acquisitions, dispositions, and integration costs associated with the acquisition of Pringles. We believe the use of this non-GAAP measure provides increased transparency and assists in understanding underlying operating performance. This non-GAAP measure is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

U.S. Morning Foods

Internal net sales for U.S. Morning Foods declined 4.7% as a result of decreased volume and unfavorable pricing/mix. This segment consists of cereal, toaster pastries, health and wellness bars, and beverages. The cereal category continued to decline during the quarter despite our investments behind category-building programs that started in the second quarter. We realized improvement in our consumption trends, particularly in our kids brands. However, the

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improvements were less than we had expected. We plan to continue our investment behind category-building programs for the remainder of the year. However, we expect our cereal consumption to remain down over the remainder of the year. We continued to see weakness in *Special K*[®] as it faces headwinds from evolving consumer trends regarding weight management. As a result, we are changing the positioning of the brand from a focus on dieting to weight wellness. This focus will stress the role that *Special K*[®] plays in a healthy lifestyle. We plan to reinvent all aspects of the brand in 2015, including innovation, packaging, advertising, and consumer promotions. Each of these will highlight *Special K*[®] position as part of a weight wellness program. New packaging and advertising will highlight the simplicity and goodness of the food, new consumer promotions will help consumers meet their goals, and innovation will directly appeal to consumer trends through *Special K*[®] Protein, *Special K*[®] Gluten Free, *Special K*[®] Granola, and additional hot cereal offerings. Toaster pastries reported a sales decline for the quarter as a result of difficult comparisons due to the peanut butter innovations launched in 2013, and the timing of new introductions this year. We plan to introduce a new PB&J innovation in November, and believe that this business will return to growth. Beverages continued to report increased consumption resulting from expanded distribution and innovations.

Underlying internal operating profit in U.S. Morning Foods declined 3.7% due to the unfavorable sales performance and a high-single-digit increase in cereal brand-building investment. This was partially offset by net cost deflation, a decrease in brand-building investment behind health and wellness bars and beverages, and continued discipline in overhead control.

U.S. Snacks

Internal net sales in U.S. Snacks declined 4.2% as a result of decreased volume partially offset by favorable pricing/mix. This segment consists of crackers, cereal bars, cookies, savory snacks, and fruit-flavored snacks. Crackers posted a sales decline, but gained share as a result of the continued success of *Cheez-It*[®] innovations and core products in the *Townhouse*[®], and *Club*[®] brands due to brand-building support and sales execution. *Cheez-It*[®], *Townhouse*[®], and *Club*[®] all reported solid consumption and share gains. The bars business declined for the quarter due to continued weakness in the *Special K*[®] and *Fiber Plus*[®] brands. The issues with these brands are similar to what we have experienced in the cereal category. To address these issues we have new products and activity planned for introduction in the fourth quarter and next year. *Rice Krispies Treats*[®] and *Nutri-grain*[®] both gained share during the quarter. The *Rice Krispies Treats*[®] performance was the result of good core growth and an innovation launch. We expect this segment to remain challenging for the balance of the year. The cookies business declined in the quarter, resulting in lost share, although both *Chips Deluxe*[®] and *Fudge Shoppe*[®] gained share. We continued to experience soft performance in our 100-calorie packs business, and the negative impact of a SKU rationalization initiative with impacts expected into early next year. Savory snacks reported solid sales growth and held share for the quarter behind the performance of the core business, Grab n Go, and the new *Pringles*[®] Tortilla product.

Underlying internal operating profit in U.S. Snacks declined by 9.9% due to unfavorable sales performance and net cost inflation. This was partially offset by continued discipline in overhead control and a decrease in brand-building investment.

U.S. Specialty

Internal net sales in U.S. Specialty declined 4.1% as a result of decreased volume partially offset by favorable pricing/mix. Sales declines were the result of supply issues with a co-packer and an inventory deload as a customer shifted from warehouse to direct delivery. These issues had a significant impact on the business. Excluding these issues, we saw a much better performance driven in part by good results from innovations in Foodservice while gaining share in a number of segments within Foodservice and Convenience businesses.

Underlying internal operating profit in U.S. Specialty declined by 14.4% due to the unfavorable sales performance. This was partially offset by discipline in overhead control.

North America Other

Internal net sales in North America Other (U.S. Frozen and Canada) declined 1.1% due to unfavorable pricing/mix which was partially offset by increased volumes. The U.S. Frozen business reported a slight decline due to product mix costs associated with the launch of new products. New *Eggo*[®] Bites continued to do well in the quarter, and we launched new *Eggo*[®] handheld sandwiches in September. These sandwiches build on the great brand-value of *Eggo*[®] and combine it with the on-trend handheld-sandwich category. This is the first all-family offering in this segment and we are excited about its potential. Canada also reported a slight decline in sales although volumes increased at a low single-digit rate. We gained share in most categories and realized double-digit consumption growth in savory snacks as the launch of *Pringles*[®] Tortilla has performed well.

Underlying internal operating profit in North America Other declined 13.2% primarily due to unfavorable sales performance and increased brand-building investment. This was partially offset by continued discipline in overhead control.

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Europe

Internal net sales for Europe declined 0.6% as a result of decreased volume and unfavorable pricing/mix. Cereal category consumption remains soft in most developed markets. While the performance posted by individual markets was largely as expected, our most significant challenge in the region remains the performance of *Special K*[®]. We have initiatives intended to address this performance planned in 2015 including new communication, an upgrade to the food, improvement in packaging, and better promotional activities. In the UK market, our cereal programs are showing early signs of success. The parent-brand Origins program, and the back-to-school themed program both achieved retail support and execution which drove strong volume improvement in the quarter. Savory snacks reported solid net sales growth in the quarter driven by focus on improving availability, visibility, and awareness. Investment in brand-building for *Pringles*[®] increased at a double-digit rate and we saw good results from the summer speaker-can promotion and execution at retail.

Underlying internal operating profit in Europe improved 3.8% due to net cost deflation and decreased brand-building investment. This was partially offset by unfavorable sales performance and increased overhead spending.

Latin America

Latin America's internal net sales improved 7.3% due to favorable pricing/mix which was partially offset by decreased volume. This was the result of growth in Venezuela, Mexico, Mercosur, and the Pringles business as well as strong pricing gains in a majority of our markets. The cereal business posted good results, although we saw some competitive price promotions in Mexico which affected selected segments late in the quarter. The Colombian and Venezuelan businesses gained share as a result of success in the children's and all-family segments. The *Special K* brand has regained momentum in Venezuela as the result of increased availability and in Mexico as the result of commercial initiatives. The underlying momentum of the savory snacks business continues, driven by strong commercial programs, innovation, and good execution.

Underlying internal operating profit in Latin America improved by 19.8% due to favorable sales performance resulting from strong pricing realization. This was partially offset by net cost inflation and a double-digit increase in brand-building investment.

Asia Pacific

Internal net sales in Asia Pacific increased 5.0% as a result of increased volume and favorable pricing/mix. The sales increase was the result of double-digit growth in the Asian markets and the savory snacks business across the region. This sales performance was partially offset by continued weakness in the Australian cereal category. The decline in Australia was a sequential improvement from the results posted in the first half of the year. Performance in the quarter benefitted from *Special K*[®] innovation and the Breakfast for Better Days parent-brand activity.

Underlying internal operating profit in Asia Pacific increased by 5.3% due to favorable sales performance and net cost deflation. This was partially offset by increased overhead spending and increased brand-building investment.

Corporate

Underlying internal operating profit for Corporate improved as a result of reduced pension costs and discipline in overhead control.

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The following table provides an analysis of net sales and operating profit performance for the year-to-date periods of 2014 as compared to 2013.

| (dollars in millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Corp- orate | Consol- idated |
|-----------------------|-----------------------|-----------------|-------------------|---------------------------|-----------------|------------------|-----------------|----------------|-------------------|
| 2014 net sales | \$ 2,522 | \$ 2,645 | \$ 918 | \$ 1,111 | \$ 2,206 | \$ 918 | \$ 746 | \$ | \$ 11,066 |
| 2013 net sales | \$ 2,657 | \$ 2,704 | \$ 932 | \$ 1,173 | \$ 2,144 | \$ 914 | \$ 767 | \$ | \$ 11,291 |

% change - 2014 vs. 2013:

| | | | | | | | | | |
|---------------------------|---------------|---------------|---------------|---------------|-------------|-------------|---------------|----------|---------------|
| As Reported | (5.0)% | (2.2)% | (1.5)% | (5.3)% | 2.9% | 0.5% | (2.6)% | % | (2.0)% |
| Acquisitions/Divestitures | % | % | % | % | % | % | (.1)% | % | % |
| Integration impact (a) | % | % | % | % | % | % | 0.4% | % | % |
| Foreign currency impact | % | % | % | (2.6)% | 3.4% | (2.4)% | (4.2)% | % | (.1)% |

| | | | | | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|----------|---------------|
| Internal business (b) | (5.0)% | (2.2)% | (1.5)% | (2.7)% | (0.5)% | 2.9% | 1.3% | % | (1.9)% |
|------------------------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|----------|---------------|

| (dollars in millions) | U.S. Morning Foods | U.S. Snacks | U.S. Specialty | North America Other | Europe | Latin America | Asia Pacific | Corp- orate | Consol- idated |
|------------------------------|-----------------------|----------------|-------------------|---------------------------|---------------|------------------|-----------------|----------------|-------------------|
| 2014 operating profit | \$ 389 | \$ 292 | \$ 209 | \$ 192 | \$ 181 | \$ 145 | \$ 32 | 6 | \$ 1,446 |
| 2013 operating profit | \$ 475 | \$ 341 | \$ 210 | \$ 223 | \$ 220 | \$ 129 | \$ 63 | (84) | \$ 1,577 |

% change - 2014 vs. 2013:

| | | | | | | | | | |
|---|----------------|----------------|---------------|----------------|----------------|--------------|----------------|---------------|---------------|
| As Reported | (18.1)% | (14.6)% | (0.1)% | (14.2)% | (17.9)% | 12.3% | (48.6)% | 107.5% | (8.3)% |
| Acquisitions/Divestitures | % | % | % | % | % | % | 1.2% | % | 0.1% |
| Integration impact (a) | % | 2.9% | % | 0.4% | (.5)% | 0.6% | 5.2% | (18.2)% | 1.2% |
| Foreign currency impact | % | % | % | (3.0)% | 5.2% | 2.0% | (3.3)% | 27.2% | 0.4% |
| Mark-to-market (c) | % | % | % | % | % | % | % | 80.6% | 5.7% |
| Restructuring and cost reduction activities (d) | (6.6)% | (9.5)% | 0.2% | (4.4)% | (25.6)% | (1.5)% | (26.1)% | (97.7)% | (10.8)% |

| | | | | | | | | | |
|--------------------------------|----------------|---------------|---------------|---------------|-------------|--------------|----------------|---------------|---------------|
| Underlying internal (e) | (11.5)% | (8.0)% | (0.3)% | (7.2)% | 3.0% | 11.2% | (25.6)% | 115.6% | (4.9)% |
|--------------------------------|----------------|---------------|---------------|---------------|-------------|--------------|----------------|---------------|---------------|

- (a) Includes impact of integration costs associated with the Pringles acquisition.
- (b) Internal net sales growth for 2014 excludes the impact of acquisitions, divestitures, integration costs and impact of foreign currency translation. Internal net sales growth is a non-GAAP financial measure which is reconciled to the directly comparable measure in accordance with U.S. GAAP within these tables.
- (c) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013 and 2012. These amounts have been recognized in the first quarter of 2014 and 2013, respectively. During the third quarter of 2014, we remeasured the benefit obligation for an impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (d) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The 2013 periods presented have been recast to exclude all restructuring and cost reduction activities from underlying and comparable results. Previously, only costs associated with Project K were excluded from underlying and comparable results.
- (e)

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Underlying internal operating profit growth excludes the impact of foreign currency translation, pension plans and commodity contracts mark-to-market adjustments, costs related to restructuring and cost reduction activities, and if applicable, acquisitions, dispositions, and integration costs associated with the acquisition of Pringles. We believe the use of this non-GAAP measure provides increased transparency and assists in understanding underlying operating performance. This non-GAAP measure is reconciled to the directly comparable measure in accordance with U.S. GAAP within this table.

U.S. Morning Foods

Year-to-date internal net sales for U.S. Morning Foods declined 5.0% due to weakness in both the cereal and toaster pastries categories. We are investing behind cereal category-building messaging, but expect that cereal category consumption will be down for the remainder of the year. Toaster pastries performance is the result of difficult comparisons due to the peanut butter innovations launched in 2013, and the timing of new introductions this year. We plan to introduce a new PB&J innovation in November, and believe that this business will return to growth.

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Year-to-date underlying internal operating profit has declined 11.5% in U.S. Morning Foods as a result of unfavorable sales performance and increased brand-building investment which was partially offset by net cost deflation and continued discipline in overhead control.

U.S. Snacks

Year-to-date internal net sales for U.S. Snacks declined approximately 2.2% due to declines in our bars business, soft performance in our 100-calorie packs business, and a SKU rationalization initiative which negatively impacted sales. Crackers and savory snacks have posted growth resulting from innovations and improved in-store execution.

Year-to-date underlying internal operating profit in U.S. Snacks declined 8.0% as a result of unfavorable sales performance and net cost inflation, which was partially offset by reduced brand-building investment and continued discipline in overhead control.

U.S. Specialty

Year-to-date internal net sales for U.S. Specialty declined by 1.5% as the business has been impacted negatively by weather early in the year, supply issues with a co-packer and an inventory deload as a customer shifted from warehouse to direct delivery. Excluding these issues, the business has performed well as a result of innovations and distribution gains.

Year-to-date underlying internal operating profit in U.S. Specialty declined 0.3% as a result of unfavorable sales performance which was partially offset by net cost deflation.

North America Other

Year-to-date internal net sales for North America Other declined by 2.7% due primarily to the U.S. Frozen business reporting sales declines resulting partially from comparisons to strong prior-year growth behind innovation activity.

Year-to-date underlying internal operating profit in North America Other declined 7.2% due to unfavorable sales performance which was partially offset by net cost deflation.

Europe

Year-to-date internal net sales for Europe declined by 0.5% due to softness in the cereal category in most developed markets, partially offset by general consumption growth realized in emerging markets. Savory snacks reported consumption and share growth during the year.

Year-to-date underlying internal operating profit in Europe increased 3.0% due to net cost deflation which was partially offset by unfavorable sales performance, increased overhead investment, and increased brand-building investment.

Latin America

Year-to-date internal net sales for Latin America improved by 2.9% as strong price realization has more than offset sales declines in the first quarter resulting from the volume elasticity impact of the introduction of a new food tax in Mexico.

Year-to-date underlying internal operating profit in Latin America improved 11.2% due to favorable sales performance which was partially offset by net cost inflation and increased overhead investment.

Asia Pacific

Year-to-date internal net sales for Asia Pacific improved by 1.3% due to sales growth in most markets. This was partially offset by weakness in the Australian cereal category and our performance in South Africa. In South Africa, we conducted construction work in the second quarter and it took longer to bring the plant back on line than expected. This impacted our ability to supply the market during the second quarter. It is important to note that the plant is producing once again.

Year-to-date underlying internal operating profit in Asia Pacific declined 25.6% due to the weakness in the Australian cereal category, our performance in South Africa, increased brand-building investment, and net cost inflation.

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Margin performance for the quarter and year-to-date periods of 2014 versus 2013 is as follows:

| Quarter | 2014 | 2013 | Change vs. prior year (pts.) |
|--|----------------|---------|------------------------------|
| Reported gross margin (a) | 35.5% | 39.0% | (3.5) |
| Mark-to-market (COGS) (b) | (1.9)% | % | (1.9) |
| Restructuring and cost reduction activities (COGS) (c) | (1.7)% | (0.3)% | (1.4) |
| Underlying gross margin (d) | 39.1% | 39.3% | (0.2) |
| Reported SGA% | (25.5)% | (25.4)% | (0.1) |
| Mark-to-market (SGA) (b) | % | % | |
| Restructuring and cost reduction activities (SGA) (c) | (0.8)% | (0.4)% | (0.4) |
| Underlying SGA% (d) | (24.7)% | (25.0)% | 0.3 |
| Reported operating margin | 10.0% | 13.6% | (3.6) |
| Mark-to-market (b) | (1.9)% | % | (1.9) |
| Restructuring and cost reduction activities (c) | (2.5)% | (0.7)% | (1.8) |
| Underlying operating margin (d) | 14.4% | 14.3% | 0.1 |
| Year-to-date | 2014 | 2013 | |
| Reported gross margin (a) | 38.0% | 38.3% | (0.3) |
| Mark-to-market (COGS) (b) | 0.4% | (0.5)% | 0.9 |
| Restructuring and cost reduction activities (COGS) (c) | (1.2)% | (0.2)% | (1.0) |
| Underlying gross margin (d) | 38.8% | 39.0% | (0.2) |
| Reported SGA% | (24.9)% | (24.3)% | (0.6) |
| Mark-to-market (SGA) (b) | % | % | |
| Restructuring and cost reduction activities (SGA) (c) | (0.8)% | (0.2)% | (0.6) |
| Underlying SGA% (d) | (24.1)% | (24.1)% | |
| Reported operating margin | 13.1% | 14.0% | (0.9) |
| Mark-to-market (b) | 0.4% | (0.5)% | 0.9 |
| Restructuring and cost reduction activities (c) | (2.0)% | (0.4)% | (1.6) |
| Underlying operating margin (d) | 14.7% | 14.9% | (0.2) |

(a) Reported gross margin as a percentage of net sales. Gross margin is equal to net sales less cost of goods sold.

(b)

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Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013 and 2012. These amounts have been recognized in the first quarter of 2014 and 2013, respectively. During the third quarter of 2014, we remeasured the benefit obligation for an impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.

- (c) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The 2013 periods presented have been recast to exclude all restructuring and cost reduction activities from underlying and comparable results. Previously, only costs associated with Project K were excluded from underlying and comparable results.
- (d) Underlying gross margin, underlying SGA%, and underlying operating margin are non-GAAP measures that exclude the impact of pension and commodity mark-to-market adjustments and restructuring and cost reduction activities. We believe the use of such non-GAAP measures provides increased transparency and assists in understanding our underlying operating performance.

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Underlying gross margin for the quarter declined 20 basis points due to unfavorable product mix, lower production volume resulting from soft sales performance, and increased integration costs, partially offset by net cost deflation. Underlying SG&A % improved 30 basis points as a result of decreased advertising investment, reduced integration costs and continued discipline in overhead control.

On a year-to-date basis, underlying gross margin declined 20 basis points due to lower production volume resulting from soft sales performance and increased integration costs. Underlying SG&A % was flat as reduced integration costs and continued discipline in overhead control were offset by advertising and consumer promotion investment.

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Our underlying gross profit, underlying SG&A, and underlying operating profit measures are reconciled to the most comparable GAAP measure as follows:

| | | |
|---|-----------------|----------|
| Quarter (dollars in millions) | 2014 | 2013 |
| Reported gross profit (a) | \$ 1,292 | \$ 1,450 |
| Mark-to-market (COGS) (b) | (66) | 2 |
| Restructuring and cost reduction activities (c) | (64) | (12) |
| Underlying gross profit (d) | \$ 1,422 | \$ 1,460 |
| Reported SGA | \$ 927 | \$ 946 |
| Mark-to-market (SGA) (b) | | |
| Restructuring and cost reduction activities (c) | (28) | (17) |
| Underlying SGA (d) | \$ 899 | \$ 929 |
| Reported operating profit | \$ 365 | \$ 504 |
| Mark-to-market (b) | (66) | 2 |
| Restructuring and cost reduction activities (c) | (92) | (29) |
| Underlying operating profit (d) | \$ 523 | \$ 531 |
| Year-to-date (dollars in millions) | 2014 | 2013 |
| Reported gross profit (a) | \$ 4,207 | \$ 4,320 |
| Mark-to-market (COGS) (b) | 38 | (59) |
| Restructuring and cost reduction activities (c) | (120) | (23) |
| Underlying gross profit (d) | \$ 4,289 | \$ 4,402 |
| Reported SGA | \$ 2,761 | \$ 2,743 |
| Mark-to-market (SGA) (b) | | |
| Restructuring and cost reduction activities (c) | (104) | (26) |
| Underlying SGA (d) | \$ 2,657 | \$ 2,717 |
| Reported operating profit | \$ 1,446 | \$ 1,577 |
| Mark-to-market (b) | 38 | (59) |
| Restructuring and cost reduction activities (c) | (224) | (49) |
| Underlying operating profit (d) | \$ 1,632 | \$ 1,685 |

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- (a) Gross profit is equal to net sales less cost of goods sold.
- (b) Includes mark-to-market adjustments for pension plans and commodity contracts as reflected in cost of goods sold. Actuarial gains/losses for pension plans are recognized in the year they occur. A portion of these mark-to-market adjustments were capitalized as inventoriable cost at the end of 2013 and 2012. These amounts have been recognized in the first quarter of 2014 and 2013, respectively. During the third quarter of 2014, we remeasured the benefit obligation for an impacted other nonpension postretirement plan. The remeasurement resulted in a mark-to-market loss of \$7 million primarily due to a lower discount rate. Mark-to-market adjustments for commodities reflect the changes in the fair value of contracts for the difference between contract and market prices for the underlying commodities. The resulting gains/losses are recognized in the quarter they occur.
- (c) Costs incurred related primarily to the execution of Project K, a global four-year efficiency and effectiveness program. The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories. The 2013 periods presented have been recast to exclude all restructuring and cost reduction activities from underlying and comparable results. Previously, only costs associated with Project K were excluded from underlying and comparable results.
- (d) Underlying gross profit, underlying SGA, and underlying operating profit are non-GAAP measures that exclude the impact of pension and commodity mark-to-market adjustments and costs related to restructuring and cost reduction activities. We believe the use of these non-GAAP measures provide increased transparency and assist in understanding underlying operating performance.

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Foreign currency translation

The reporting currency for our financial statements is the U.S. dollar. Certain of our assets, liabilities, expenses and revenues are denominated in currencies other than the U.S. dollar, including the euro, British pound, Australian dollar, Canadian dollar, Mexican peso, Venezuelan bolivar fuerte and Russian ruble. To prepare our consolidated financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S. dollar against these other currencies will affect the value of these items in our consolidated financial statements, even if their value has not changed in their original currency. This could have a significant impact on our results if such increase or decrease in the value of the U.S. dollar is substantial.

Restructuring and cost reduction activities

We view continued spending on restructuring and cost reduction activities as part of our ongoing operating principles to provide greater visibility in achieving our 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.

We have initiated a number of restructuring and cost reduction activities. The most recent and largest program that is currently active is Project K, a four-year efficiency and effectiveness program announced in November 2013. The program is expected to generate a significant amount of savings that will be invested in key strategic areas of focus for the business. We expect that this investment will drive future growth in revenues, gross margin, operating profit, and cash flow.

The focus of the program will be to strengthen existing businesses in core markets, increase growth in developing and emerging markets, and drive an increased level of value-added innovation. The program is expected to provide a number of benefits, including an optimized supply chain infrastructure, the implementation of global business services, and a new global focus on categories.

During the quarter ended September 27, 2014, the Company recorded total charges of \$92 million across all restructuring and cost reduction activities. The charges were comprised of \$64 million being recorded in cost of goods sold (COGS) and \$28 million recorded in selling, general and administrative (SGA) expense. During the year-to-date period ended September 27, 2014, the Company recorded total charges of \$224 million across all restructuring and cost reduction activities. The charges were comprised of \$120 million being recorded in COGS and \$104 million recorded in SGA expense.

During the quarter ended September 28, 2013 the Company recorded total charges of \$29 million across all restructuring and cost reduction activities. The charges were comprised of \$12 million being recorded in COGS and \$17 million recorded in SGA expense. During the year-to-date period ended September 28, 2013 the Company recorded total charges of \$49 million across all restructuring and cost reduction activities. The charges were comprised of \$23 million being recorded in COGS and \$26 million recorded in SGA expense.

The tables below provide the details for charges across all restructuring and cost reduction activities incurred during the quarters and year-to-date periods ended September 27, 2014 and September 28, 2013 and program costs to date for programs currently active as of September 27, 2014.

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| (millions) | Quarter ended | | Year-to-date period ended | | Program costs to date |
|------------------------|--------------------|--------------------|---------------------------|--------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 | September 27, 2014 |
| Employee related costs | \$ 22 | \$ 12 | \$ 74 | \$ 17 | \$ 183 |
| Asset related costs | 6 | | 16 | 5 | 25 |
| Asset Impairment | 21 | | 21 | | 87 |
| Other costs | 43 | 17 | 113 | 27 | 163 |
| Total | \$ 92 | \$ 29 | \$ 224 | \$ 49 | \$ 458 |

| (millions) | Quarter ended | | Year-to-date period ended | | Program costs to date |
|---------------------|--------------------|--------------------|---------------------------|--------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 | September 27, 2014 |
| U.S. Morning Foods | \$ 15 | \$ 7 | \$ 41 | \$ 12 | \$ 151 |
| U.S. Snacks | 32 | 4 | 42 | 10 | 69 |
| U.S. Specialty | 1 | 1 | 2 | 3 | 7 |
| North America Other | 2 | | 11 | 1 | 23 |
| Europe | 23 | 6 | 63 | 6 | 82 |
| Latin America | 1 | 3 | 6 | 3 | 13 |
| Asia Pacific | 11 | 1 | 22 | 7 | 46 |
| Corporate | 7 | 7 | 37 | 7 | 67 |
| Total | \$ 92 | \$ 29 | \$ 224 | \$ 49 | \$ 458 |

For the quarter and year-to-date periods ended September 27, 2014 and September 28, 2013 employee related costs consist primarily of severance benefits, asset related costs consist primarily of accelerated depreciation, and other costs consist primarily of third-party incremental costs related to the development and implementation of global business capabilities.

We currently anticipate that Project K will result in total pre-tax charges, once all phases are approved and implemented, of \$1.2 to \$1.4 billion, with after-tax cash costs, including incremental capital expenditures, estimated to be \$900 million to \$1.1 billion. Cash expenditures, after tax and including incremental capital, of approximately \$182 million were incurred in the year-to-date period ended September 27, 2014. Total cash expenditures, as defined, are expected to be approximately \$300 to \$400 million in 2014 and the balance of \$600 to \$700 million thereafter. We currently expect the charges will consist of asset-related costs totaling \$450 to \$500 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling \$425 to \$475 million which will include severance, pension and other termination benefits; and other costs totaling \$325 to \$425 million which will consist primarily of charges related to the design and implementation of global business capabilities. A significant portion of other costs are the result of the implementation of global business service centers which are intended to simplify and standardize business support processes. Costs incurred to date related to Project K through September 27, 2014 totaled \$419 million.

We currently expect that total pre-tax charges will impact reportable segments as follows: U.S. Morning Foods (approximately 17%), U.S. Snacks (approximately 10%), U.S. Specialty (approximately 1%), North America Other (approximately 3%), Europe (approximately 12%), Latin America (approximately 3%), Asia-Pacific (approximately 6%), and Corporate (approximately 48%). A majority of the costs impacting Corporate relate to additional initiatives to be executed after 2014 that are currently not fully defined. As the development of these initiatives is completed, we will update its estimated costs by reportable segment as needed.

We expect annual cost savings generated from Project K will be approximately \$425 to \$475 million by 2018, with approximately two-thirds of the cost savings to be realized in cost of goods sold. We realized \$15 million of savings in 2013 and expect \$60 to \$70 million of savings in 2014, approximately 40% of which will come from cost of goods sold. Cost savings will be reinvested into the business through additional investments in advertising, in-store execution, and in the design and quality of our products. We will also invest in production capacity in developing and emerging markets, and in global category teams.

As a result of Project K, we anticipate that capital spending will be impacted at least through the end of fiscal year 2015. Our current business model assumes capital spending to be approximately 3-4% of net sales annually. Through the end of fiscal year 2015, capital spending is expected to be approximately 4-5% as a result of Project K activities.

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Due to the difference in timing between expected cash costs for the project and expected future cash savings, we anticipate funding the project through a combination of cash on hand and short-term debt.

We also expect that the project will have an impact on our consolidated effective income tax rate during the execution of the project due to the timing of charges being taken in different tax jurisdictions. The impact of this project on our consolidated effective income tax rate will be excluded from the underlying income tax rate that will be disclosed on a quarterly basis.

At September 27, 2014 reserves for all restructuring and cost reduction activities are reflected in the table below. A substantial portion of these reserves will be paid out in 2014 and 2015 related to severance payments and other costs.

| (millions) | Employee Related Costs | Asset Impairment | Asset Related Costs | Other Costs | Total |
|---|------------------------------|---------------------|------------------------|----------------|---------------|
| Liability as of December 28, 2013 | \$ 66 | \$ | \$ | \$ 12 | \$ 78 |
| 2014 restructuring charges | 74 | 21 | 16 | 113 | 224 |
| Cash payments | (40) | | (7) | (116) | (163) |
| Non-cash charges and other | 12 | (21) | (9) | | (18) |
| Liability as of September 27, 2014 | \$ 112 | \$ | \$ | \$ 9 | \$ 121 |

Interest expense

For the quarter and year-to-date period ended September 27, 2014, interest expense was \$54 million and \$156 million, respectively, as compared to the quarter and year-to-date period ended September 28, 2013 with interest expense of \$56 million and \$177 million, respectively. The decrease in interest expense from the prior year is due primarily to the repayment of debt replaced by a combination of lower yield debt and commercial paper.

For the full year 2014, we expect gross interest expense to be approximately \$210 million, compared to 2013's full year interest expense of \$235 million.

Income taxes

Our reported effective tax rates for the quarters ended September 27, 2014 and September 28, 2013 were 27.7% and 27.4%, respectively. Underlying effective tax rates for the quarters ended September 27, 2014 and September 28, 2013 were 28.5% and 27.7%, respectively. Refer to Note 8 within Notes to Consolidated Financial Statements for further information.

For the full year 2014, we currently expect the underlying reported effective income tax rate to be approximately 29%. Fluctuations in foreign currency exchange rates could impact the expected effective income tax rate as it is dependent upon U.S. dollar earnings of foreign subsidiaries doing business in various countries with differing statutory rates. Additionally, the rate could be impacted if pending uncertain tax matters, including tax positions that could be affected by planning initiatives, are resolved more or less favorably than we currently expect.

The following table sets forth a summary of our cash flows:

| (millions) | Year-to-date period ended September 27, 2014 | September 28, 2013 |
|---------------------------------|--|-----------------------|
| Net cash provided by (used in): | | |
| Operating activities | \$ 1,177 | \$ 1,389 |
| Investing activities | (348) | (364) |
| Financing activities | (688) | (982) |

| | | |
|---|---------------|--------------|
| Effect of exchange rates on cash and cash equivalents | 12 | (24) |
| Net increase in cash and cash equivalents | \$ 153 | \$ 19 |

Table of Contents**Liquidity and capital resources**

Our principal source of liquidity is operating cash flows supplemented by borrowings for major acquisitions and other significant transactions. Our cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating and investing needs.

Operating activities

The principal source of our operating cash flow is net earnings, meaning cash receipts from the sale of our products, net of costs to manufacture and market our products.

Net cash provided by our operating activities for the year-to-date period ended September 27, 2014 amounted to \$1,177 million, a decrease of \$212 million compared to the same period in 2013. The decrease compared to the prior year is primarily due to an unfavorable year-over-year variance in after-tax Project K cash payments and other working capital items. Net cash provided by operating activities for the year-to-date periods ended September 27, 2014 and September 28, 2013 were negatively impacted by \$118 million and \$26 million of after-tax Project K cash payments, respectively.

Our cash conversion cycle (defined as days of inventory, excluding inventorable mark-to-market pensions and commodity costs, and trade receivables outstanding less days of trade payables outstanding, based on a trailing 12 month average) is relatively short, equating to approximately 30 days for each of the 12 month periods ended September 27, 2014 and September 28, 2013. Compared with the 12 month period ended September 28, 2013, the 2014 cash conversion cycle was relatively consistent for accounts payable. An unfavorable increase in accounts receivable was offset by a favorable decrease in inventory days outstanding.

Our pension and other postretirement benefit plan contributions amounted to \$44 million and \$42 million for the year-to-date periods ended September 27, 2014 and September 28, 2013, respectively. For the full year 2014, we currently expect that our contributions to pension and other postretirement plans will total approximately \$57 million. Plan funding strategies may be modified in response to our evaluation of tax deductibility, market conditions and competing investment alternatives.

We measure cash flow as net cash provided by operating activities reduced by expenditures for property additions. We use this non-GAAP financial measure of cash flow to focus management and investors on the amount of cash available for debt repayment, dividend distributions, acquisition opportunities, and share repurchases. Our cash flow metric is reconciled to the most comparable GAAP measure, as follows:

| (millions) | Year-to-date period ended | | Change versus prior year |
|---|---------------------------|-----------------------|-----------------------------|
| | September 27, 2014 | September 28, 2013 | |
| Net cash provided by operating activities | \$ 1,177 | \$ 1,389 | (15.3)% |
| Additions to properties | (355) | (363) | |
| Cash flow | \$ 822 | \$ 1,026 | (19.9)% |

For the full-year 2014, we are projecting cash flow (as defined) to be approximately \$1.0 billion to \$1.1 billion.

Investing activities

Our net cash used in investing activities, primarily consisting of additions to properties, for the year-to-date period ended September 27, 2014 amounted to \$348 million compared to \$364 million in the same period of 2013. For the full-year 2014, we project capital spending to be between 4% and 5% of net sales.

Financing activities

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Our net cash used in financing activities for the year-to-date period ended September 27, 2014 amounted to \$688 million compared to \$982 million in the same period of 2013.

In March 2014, we retired an aggregate of \$681 million of our 2020, 2022 and 2023 debt through a tender offer, which was primarily funded by commercial paper. In connection with the debt redemption, we incurred \$1 million of interest expense, offset by \$8 million of accelerated gains on interest rate hedges previously recorded in accumulated other comprehensive income, and recorded \$5 million in Other Income, Expense (net), related to acceleration of deferred fees on the redeemed debt and fees related to the tender offer. These charges were included in cash flows for operating activities.

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In May 2014, we issued Cdn. \$300 million of long-term debt using the proceeds to retire Cdn. \$300 million of long-term debt at maturity.

In May 2014, we issued 500 million of long-term debt using the proceeds for general corporate purposes, which included repayment of a portion of our commercial paper.

In February 2013, we issued long-term debt for net proceeds of approximately \$645 million and in March 2013, retired \$749 million of long-term debt at maturity.

In December 2012, our board of directors approved a \$300 million share repurchase program for 2013. In April 2013, the board of directors approved a \$1 billion share repurchase program expiring in April 2014. In February 2014, the board of directors approved a new authorization to repurchase up to \$1.5 billion in shares through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow us to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs. Actual repurchases could be different from our current expectations, as influenced by factors such as the impact of changes in our stock price and other competing priorities. In May 2013, we entered into an Accelerated Share Repurchase (ASR) Agreement with a financial institution counterparty and paid \$355 million for the purchase of shares during the term of the Agreement which extended through August 2013. The total number of shares delivered upon settlement of the ASR was based upon the volume weighted average price of our company's stock over the term of the Agreement. Total purchases in 2014 and 2013, including shares initially delivered under the ASR were 11 million shares for \$690 million and 9 million shares for \$544 million, respectively.

We paid cash dividends of \$506 million in the year-to-date period ended September 27, 2014 compared to \$486 million during the same period in 2013. The increase in dividends paid reflects our third quarter 2013 increase in the quarterly dividend to \$.46 per common share, from the previous \$.44 per common share. In October 2014, the board of directors declared a dividend of \$.49 per common share, payable on December 15, 2014 to shareholders of record at the close of business on December 1, 2014. The dividend is consistent with our current plan to maintain our dividend pay-out between 40% and 50% of underlying net income.

In February 2014, we entered into an unsecured five year credit agreement expiring in 2019, which allows us to borrow, in a revolving credit basis, up to \$2.0 billion. This agreement replaced our unsecured four year credit agreement, which would have expired in March 2015.

We are evaluating alternatives to refinance our existing notes payable on a longer-term basis.

We are in compliance with all debt covenants. We continue to believe that we will be able to meet our interest and principal repayment obligations and maintain our debt covenants for the foreseeable future. We expect our access to public debt and commercial paper markets, along with operating cash flows, will be adequate to meet future operating, investing and financing needs, including the pursuit of selected acquisitions.

Accounting standards to be adopted in future periods

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which provides guidance for accounting for revenue from contracts with customers. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity would be required to apply the following five steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the ASU in retained earnings at the date of initial application. An entity will not restate prior periods if it uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the ASU as compared to the guidance in effect prior to the change, as well as reasons for significant changes. We will adopt the updated standard in the first quarter of 2017. We are currently evaluating the impact that implementing this ASU will have on our financial statements and disclosures, as well as whether we will use the retrospective or modified retrospective method of adoption.

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Forward-looking statements

This Report contains forward-looking statements with projections concerning, among other things, the Company's global growth and efficiency program (Project K), the integration of the *Pringles*[®] business, our strategy, financial principles, and plans; initiatives, improvements and growth; sales, gross margins, advertising, promotion, merchandising, brand building, operating profit, and earnings per share; innovation; investments; capital expenditures; costs, charges, rates of return, asset write-offs and expenditures and costs related to productivity or efficiency initiatives; workforce reductions, savings, the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity, and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words *expects*, *believes*, *will*, *can*, *anticipates*, *projects*, *should*, *estimates*, *implies*, *forecasted*, or words or phrases of similar meaning. For example, forward-looking statements are found in Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results could be affected by a variety of factors, including:

the ability to implement Project K as planned, whether the expected amount of costs associated with Project K will differ from forecasts, whether the Company will be able to realize the anticipated benefits from Project K in the amounts and times expected;

the ability to realize the anticipated benefits and synergies from the Pringles acquisition in the amounts and at the times expected;

the impact of competitive conditions;

the effectiveness of pricing, advertising, and promotional programs;

the success of innovation, renovation and new product introductions;

the recoverability of the carrying value of goodwill and other intangibles;

the success of productivity improvements and business transitions;

commodity and energy prices;

labor costs;

disruptions or inefficiencies in supply chain;

the availability of and interest rates on short-term and long-term financing;

actual market performance of benefit plan trust investments;

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the levels of spending on systems initiatives, properties, business opportunities, integration of acquired businesses, and other general and administrative costs;

changes in consumer behavior and preferences;

the effect of U.S. and foreign economic conditions on items such as interest rates, statutory tax rates, currency conversion and availability;

legal and regulatory factors including changes in food safety, advertising and labeling laws and regulations;

the ultimate impact of product recalls;

business disruption or other losses from natural disasters, war, terrorist acts, or political unrest; and,

the risks and uncertainties described herein under Part II, Item 1A.

Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our Company is exposed to certain market risks, which exist as a part of our ongoing business operations. We use derivative financial and commodity instruments, where appropriate, to manage these risks. Refer to Note 9 within Notes to Consolidated Financial Statements for further information on our derivative financial and commodity instruments.

Refer to disclosures contained within Item 7A of our 2013 Annual Report on Form 10-K. Other than changes noted here, there have been no material changes in the Company's market risk as of September 27, 2014.

In February 2014, we entered into forward starting interest swaps with notional amounts totaling \$690 million, as a hedge against interest rate volatility associated with a forecasted issuance of fixed rate debt to fund the repayment of commercial paper and for general corporate purposes. These swaps were designated as cash flow hedges. These forward starting interest swaps were settled in May 2014 upon the related issuance of fixed rate debt. A resulting loss of \$17 million was recorded in accumulated other comprehensive income (loss) and will be amortized as interest expense over the life of the related fixed rate debt. Refer to Note 5 within Notes to Consolidated Financial Statements for further information related to the fixed rate debt issuance.

In June 2014, we entered into forward starting interest swaps with notional amounts totaling 500 million (approximately \$639 million USD as of September 27, 2014), as a hedge against interest rate volatility associated with a forecasted issuance of fixed rate debt to be used for general corporate purposes. These swaps were designated as cash flow hedges.

The total notional amount of interest rate swaps at September 27, 2014 was \$3.0 billion, with a fair value of the related liability of \$63 million. The total notional amount of interest rate swaps at December 28, 2013 was \$2.4 billion, with a fair value of the related liability of \$59 million. Assuming average variable rate debt levels during the year, a one percentage point increase in interest rates would have increased annual interest expense by approximately \$34 million at September 27, 2014 and \$35 million at December 28, 2013.

Venezuela was designated as a highly inflationary economy as of the beginning of our 2010 fiscal year. Gains and losses resulting from the translation of the financial statements of subsidiaries operating in highly inflationary economies are recorded in earnings. In February 2013, the Venezuelan government announced a 46.5% devaluation of the official CADIVI (now named CENCOEX) exchange rate from 4.3 bolivars to 6.3 bolivars to the U.S. dollar. Additionally, the Transaction System for Foreign Currency Denominated Securities (SITME), used between May 2010 and January 2013 to translate our Venezuelan subsidiary's financial statements to U.S. dollars, was eliminated. Accordingly, in February 2013 we began using the CENCOEX exchange rate to translate our Venezuelan subsidiary's financial statements to U.S. dollars and in the year-to-date period ended September 28, 2013, we recognized a \$14 million charge as a result of the devaluation of the CENCOEX exchange rate. The CENCOEX exchange is restricted to some raw materials, finished goods, and machinery for sectors considered as national priorities, which is primarily food and medicines.

In March, 2013, the Venezuelan government announced a new auction-based currency transaction program referred to as SICAD1. SICAD1 allows entities in specific sectors to bid for U.S. dollars to be used for specified import transactions, with the minimum exchange rate to be offered being 6.3 bolivars to the U.S. dollar. As of September 27, 2014, the published SICAD1 rate offered was 12.0 bolivars to the U.S. dollar and availability of U.S. dollars at either exchange rate continues to be limited.

In January, 2014, the Venezuelan government announced the expansion of the SICAD1 auction program to prospective dividends and royalties and new profit margin controls. As our Venezuelan subsidiary declares dividends or pays royalties in the future, based on the availability of U.S. dollars exchanged under the SICAD1 program, the realized exchange losses on payments made in U.S. dollars would be recognized in earnings. On profit level controls, we continue to evaluate the announced measures and will look to protect net revenues and profitability.

In February 2014, the Venezuelan government announced plans to launch a third foreign exchange mechanism, known as SICAD2, which became operational on March 24, 2014. SICAD2 relies on U.S. dollar cash and U.S. dollar denominated bonds offered by the Venezuelan Central Bank, PDVSA (the national oil and gas company) and private companies. The Venezuelan government has indicated that all industry sectors will be able to access SICAD2 and its use will not be restricted as to purpose. As of September 27, 2014, the published SICAD2 rate was 50.0 bolivars to the U.S. dollar.

In light of the current difficult macroeconomic environment in Venezuela, we continue to monitor and actively manage our investment and exposures in Venezuela. Our Venezuelan business does not rely heavily on imports and when items are imported, they are largely exchanged at the CENCOEX rate. As of September 27, 2014, we translated our Venezuelan subsidiary's financial statements to U.S. dollars using the CENCOEX exchange rate. We will continue to monitor local

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conditions, our continued ability to obtain U.S. dollars at the CENCOEX exchange rate, and the use, if applicable, of the SICAD1 and SICAD2 mechanisms to determine the appropriate rate for translation. For the year-to-date period ended September 27, 2014, Venezuela represented approximately 2% of total net sales and 3% of total underlying operating profit. For the year-to-date period ended September 28, 2013, Venezuela represented approximately 1% of total net sales and 2% of total underlying operating profit. As of September 27, 2014, our net monetary assets denominated in the Venezuelan bolivar were \$100 million in U.S. dollars applying the CENCOEX exchange rate. If the CENCOEX exchange rate were to devalue further or if the currently less favorable SICAD1 exchange rate were extended to apply to a greater portion of our net monetary assets in Venezuela, we could recognize a devaluation charge in earnings. The potential unfavorable fully diluted EPS impact of adopting the SICAD1 exchange rate, at the current rate of 12.0 bolivars to the U.S. dollar, would be approximately \$.11 for the revaluation of our net monetary assets denominated in the Venezuelan bolivar at September 27, 2014, and approximately \$.01 for the translation of after-tax operating profit during the remainder of 2014. The potential unfavorable fully diluted EPS impact of adopting the SICAD2 exchange rate, at the current rate of 50.0 bolivars to the U.S. dollar, would be approximately \$.21 for the revaluation of our net monetary assets denominated in the Venezuelan bolivar at September 27, 2014, and approximately \$.01 for the translation of after-tax operating profit during the remainder of 2014. We continue to monitor the currency developments in Venezuela and take protective measures against currency devaluation which may include converting monetary assets into non-monetary assets which we can use in our business.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure under Rules 13a-15(e) and 15d-15(e). Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives.

As of September 27, 2014, we carried out an evaluation under the supervision and with the participation of our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

During the first quarter of 2012, we initiated the implementation of an upgrade to our existing enterprise resource planning (ERP) system within North America. This implementation has resulted in the modification of certain business processes and internal controls impacting financial reporting. During the implementation, which is expected to be completed in 2014, we have taken the necessary steps to monitor and maintain appropriate internal controls impacting financial reporting. It is anticipated that, upon completion, implementation of this new ERP will enhance internal controls due to increased automation and further integration of related processes.

During the third quarter of 2014, we went live with the first phase of our Global Business Services (GBS) initiative, in conjunction with Project K, which includes the reorganization and relocation of certain financial service processes, internal to the organization. This initiative is expected to continue through 2016 and will impact the design of our control framework. During the transition to GBS, we have put additional controls in place to monitor and maintain appropriate internal controls impacting financial reporting.

There have been no other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**KELLOGG COMPANY****PART II OTHER INFORMATION****Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended December 28, 2013. The risk factors disclosed under those Reports in addition to the other information set forth in this Report, could materially affect our business, financial condition, or results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition, or results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

(millions, except per share data)

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------------|---|---|---|---|
| Month #1: 6/29/14-7/26/14 | | \$ 0.00 | | \$ 1,430 |
| Month #2: 7/27/14-8/23/14 | 3.0 | \$ 63.38 | 3.0 | \$ 1,238 |
| Month #3: 8/24/14-9/27/14 | 2.6 | \$ 64.54 | 2.6 | \$ 1,069 |
| Total | 5.6 | \$ 63.92 | 5.6 | |

In February 2014, our board of directors approved a share repurchase program authorizing us to repurchase shares of our common stock amounting to \$1.5 billion through December 2015. This authorization supersedes the April 2013 authorization and is intended to allow us to repurchase shares for general corporate purposes and to offset issuances for employee benefit programs.

Item 6. Exhibits

(a) Exhibits:

- 31.1 Rule 13a-14(e)/15d-14(a) Certification from John A. Bryant
- 31.2 Rule 13a-14(e)/15d-14(a) Certification from Ronald L. Dissinger
- 32.1 Section 1350 Certification from John A. Bryant

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| | |
|---------|--|
| 32.2 | Section 1350 Certification from Ronald L. Dissinger |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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KELLOGG COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KELLOGG COMPANY

/s/ R. L. Dissinger
R. L. Dissinger
Principal Financial Officer;

Senior Vice President and Chief Financial

Officer

/s/ M. A. Dangel
M. A. Dangel
Principal Accounting Officer;

Vice President Corporate Controller

Date: November 4, 2014

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KELLOGG COMPANY

EXHIBIT INDEX

| Exhibit No. | Description | Ref. (IBRF) | Electronic (E) Paper (P) Incorp. By |
|-------------|---|-------------|---|
| 31.1 | Rule 13a-14(e)/15d-14(a) Certification from John A. Bryant | E | |
| 31.2 | Rule 13a-14(e)/15d-14(a) Certification from Ronald L. Dissinger | E | |
| 32.1 | Section 1350 Certification from John A. Bryant | E | |
| 32.2 | Section 1350 Certification from Ronald L. Dissinger | E | |
| 101.INS | XBRL Instance Document | E | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | E | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | E | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | E | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | E | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | E | |