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KELLOGG CO
Form 11-K
June 26, 2003

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

COMMISSION FILE NUMBER 1-4171

THE KELLOGG COMPANY SAVINGS AND INVESTMENT PLAN
(Full Title of the Plan)

KELLOGG COMPANY
(Name of Issuer)

ONE KELLOGG SQUARE
BATTLE CREEK, MICHIGAN 49016-3599
(Principal Executive Office)

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2002 AND
THE TWO MONTHS ENDED DECEMBER 31, 2001

PAGE(S)

| | |
|--|-----|
| REPORT OF INDEPENDENT AUDITORS..... | 1 |
| FINANCIAL STATEMENTS | |
| Statement of Net Assets Available for Benefits..... | 2 |
| Statement of Changes in Net Assets Available for Benefits..... | 3 |
| Notes to Financial Statements..... | 4-9 |
| SUPPLEMENTAL SCHEDULES | |
| Schedule I: Schedule of Assets (Held at End of Year)..... | 10 |

Note: Other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act ("ERISA") of 1974 have been

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omitted because they are not applicable.

REPORT OF INDEPENDENT AUDITORS

To the Trustees and Participants of the
Kellogg Company Savings
and Investment Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Kellogg Company Savings and Investment Plan (the "Plan") at December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002 and the two months ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Battle Creek, Michigan

June 13, 2003

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KELLOGG COMPANY
 SAVINGS AND INVESTMENT PLAN
 STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
 DECEMBER 31, 2002 AND DECEMBER 31, 2001

| | 2002 | 2001 |
|--|----------------|---------------|
| ASSETS | | |
| Receivables | | |
| Employer contributions | \$ 250,457 | \$ 5,232 |
| Employee contributions | | 16,789 |
| Interest | | 617 |
| | ----- | ----- |
| Total receivables | 250,457 | 22,638 |
| | ----- | ----- |
| Amount due from prior trustee (Note 1) | 123,031 | |
| Investments | | |
| Plan's interest in Master Trust | 623,841,143 | 435,700,450 |
| Loans to participants | 9,558,982 | 3,979,077 |
| | ----- | ----- |
| Total investments | 633,400,125 | 439,679,527 |
| | ----- | ----- |
| Total assets | 633,773,613 | 439,702,165 |
| | ----- | ----- |
| LIABILITIES | | |
| Investment services fees | 39,862 | 31,947 |
| Amount due Plan sponsor | 13,895 | |
| | ----- | ----- |
| Total liabilities | 53,757 | 31,947 |
| | ----- | ----- |
| Net assets available for benefits | \$ 633,719,856 | \$439,670,218 |
| | ===== | ===== |

See accompanying notes to financial statements

KELLOGG COMPANY
 SAVINGS AND INVESTMENT PLAN
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | |
|-------------------|-------------------|
| FOR THE YEAR | FOR THE |
| ENDED | TWO MONTHS |
| DECEMBER 31, 2002 | ENDED |
| | DECEMBER 31, 2001 |

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| | | |
|--|----------------|---------------|
| Contributions | | |
| Employer | \$ 11,097,348 | \$ 985,836 |
| Employee | 26,857,382 | 2,518,237 |
| Rollovers from other qualified plans | 706,859 | 83,244 |
| | ----- | ----- |
| Total contributions | 38,661,589 | 3,587,317 |
| | ----- | ----- |
| Earnings on Investments | | |
| Plan's interest in income (loss) of Master Trust | (16,962,167) | 13,995,253 |
| Interest income | 455,408 | 57,679 |
| Trustee fees | (101,776) | (15,820) |
| Administrative fees | (758,799) | (84,494) |
| | ----- | ----- |
| Total (loss) earnings on investments, net | (17,367,334) | 13,952,618 |
| | ----- | ----- |
| Participant withdrawals | (45,045,121) | (7,504,442) |
| Net transfers between Plans | 457,387 | |
| Transfers from prior trustees | 217,343,117 | |
| | ----- | ----- |
| Net increase | 194,049,638 | 10,035,493 |
| Net assets available for benefits at beginning of year | 439,670,218 | 429,634,725 |
| | ----- | ----- |
| Net assets available for benefits at end of year | \$ 633,719,856 | \$439,670,218 |
| | ===== | ===== |

See accompanying notes to financial statements

3

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Plan operates as a qualified defined contribution plan and was established under Section 401(k) of the Internal Revenue Code. The accounts of the Plan are maintained on the accrual basis. Expenses of administration are paid by the Plan.

CHANGE IN PLAN YEAR

On November 1, 2001, the Kellogg Company Savings and Investment Plan ("the Plan") was amended, resulting in a change in the Plan's year end to December 31. Previously, the Plan year began on November 1 and ended on October 31. As such, the Plan reported on a short Plan year for the two months ended December 31, 2001.

PLAN MERGERS

On March 1, 2002, the Worthington Foods, Inc. 401(k) Profit Sharing Plan merged with the Plan. Plan assets of \$1,624,593 consisting primarily of participant investment balances and participant loans receivable were transferred to the Plan on March 1, 2002.

On March 28, 2002, the Mondo Baking 401(k) Plan merged with the Plan. Plan

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assets of \$3,410,229 consisting primarily of participant investment balances and participant loan receivables were transferred to the Plan on March 28, 2002.

On April 29, 2002, the Keebler Puerto Rico 401(k) Savings Plan merged with the Plan. Plan assets of \$99,470 consisting primarily of participant investment balances were transferred to the Plan on April 29, 2002.

On June 28, 2002, the Keebler Company Salaried Savings Plan merged with the Plan. Plan assets of \$183,562,777 consisting primarily of participant investment balances and participant loan receivables were transferred to the Plan on June 28, 2002.

On June 28, 2002, the Keebler Company Union Savings Plan merged with the Plan. Plan assets of \$19,687,050 consisting primarily of participant investment balances and participant loan receivables were transferred to the Plan on June 28, 2002.

On June 28, 2002, the Keebler Company Savings Plan for Hourly Associates of Cary Bakery merged with the Plan. Net plan assets of \$8,958,998 consisting primarily of participant investment balances and participant loan receivables were transferred to the Plan on June 28, 2002.

INVESTMENTS

All investments are reported at current quoted market values except for guaranteed insurance contracts, which are reported at contract value and represent contributions made plus interest at the contract rate. These contracts are maintained in the Stable Value Fund of the Kellogg Company Master Trust.

4

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

The Plan presents in the statement of changes in net assets available for benefits the Plan's interest in income of Master Trust, which consists primarily of the realized gains or losses on the fair value of the Master Trust investments and the unrealized appreciation (depreciation) on those investments.

EMPLOYER CONTRIBUTIONS RECEIVABLE

Substantially all of the employer contributions receivable relate to employer matching contributions and related investment earnings, earned throughout the year, but which were unpaid by the Plan sponsor at year end.

AMOUNT DUE FROM PRIOR TRUSTEE

Amount due from prior trustee represents a receivable from the former trustee of the Keebler Company Savings Plan for Hourly Associates of Cary Bakery that was unpaid at December 31, 2002.

ALLOCATION OF NET INVESTMENT INCOME TO PARTICIPANTS

Net investment income is allocated to participant accounts daily, in proportion to their respective ownership on that day.

RISKS AND UNCERTAINTIES

The Plan provides for various investment options in several investment

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securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible the changes in risk in the near term would materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan's management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

2. PROVISIONS OF THE PLAN

PLAN ADMINISTRATION

The Plan is administered by the ERISA Finance Committee and the ERISA Administrative Committee appointed by Kellogg Company.

PLAN PARTICIPATION

Generally, all salaried employees of Kellogg Company and its U.S. subsidiaries, employees of the Company's Worthington Foods subsidiary covered by a collective bargaining agreement, employees of the Company's Cary Bakery facility covered by a collective bargaining agreement and employees of the Company's Keebler subsidiary covered by a collective bargaining agreement are eligible to participate in the Plan.

5

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

Subject to limitations prescribed by the Internal Revenue Service, participants may elect to contribute from 1 percent to 50 percent of their annual wages. Total deferrals in any taxable year may not exceed \$11,000 (or \$10,500 in 2001). As of January 1, 2002, employee contributions are matched by Kellogg Company at a 100 percent rate on the first 3 percent and a 50 percent rate on the next 2 percent, with 12.5 percent of the Company match restricted for investment in the Kellogg Company stock fund, except for employees of certain Company facilities covered by a collective bargaining agreement. Please refer to the Plan document for additional information. Employees may contribute to the Plan from their date of hire; however, the monthly contributions are not matched by the Company until the participant has completed one year of service.

Participants of the Plan may elect to invest the contributions to their accounts as well as their account balances in various equity, bond, fixed income or Kellogg Company stock funds or a combination thereof in multiples of one percent.

VESTING

Participant account balances are fully vested.

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PARTICIPANT LOANS

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their account balance. Participants may have only one loan outstanding at any time. Loan transactions are treated as transfers between the Loan fund and the other funds. Loan terms range from 12 to 60 months, except for principal residence loans, which must be repaid within 15 years (or 180 months). Interest is paid at a constant rate equal to one percent over the prime rate in the month the loan begins. Principal and interest are paid ratably through monthly payroll deductions. Loans that are considered to be uncollectible at year end result in the outstanding principal being considered a hardship withdrawal from the participant's plan account.

PARTICIPANT DISTRIBUTIONS

Participants may request an in-service withdrawal of all or a portion of certain types of contributions, under standard in-service withdrawal rules. The withdrawal of any participant contributions which were not previously subject to income tax is restricted by Internal Revenue Service regulations.

Participants who terminate employment before retirement, by reasons other than death or disability, may remain in the Plan or receive payment of their account balances in a lump sum or installment payments, and certain accounts retain an annuity payment right. If the account balance is \$5,000 or less, the terminated participant will receive the account balance in a lump sum.

Participants are eligible to retire from the Company at age 62, upon reaching 55 with 20 years of service, or after 30 years of service. Upon retirement, disability, or death, a participant's account balance may be received in a lump sum or installment payments.

TERMINATION

While the Company has expressed no intentions to do so, the Plan may be terminated at any time. In the event of termination of the Plan, the account of each participant will be fully vested.

6

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

3. INCOME TAX STATUS

The Plan administrator has received a favorable letter from the Internal Revenue Service dated November 19, 1997 regarding the Plan's qualification under applicable income tax regulations as an entity exempt from federal income taxes. The Plan has been amended since receiving the determination letter. The Plan administrator believes the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. The Plan was submitted to the IRS in February, 2002 for the purpose of requesting a favorable determination letter as to its on-going tax-qualified status.

4. KELLOGG COMPANY MASTER TRUST

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The Plan has an undivided interest in the net assets held in the Kellogg Company Master Trust in which interests are determined on the basis of cumulative funds specifically contributed on behalf of the Plan adjusted for an allocation of income. Such income allocation is based on the Plan's funds available for investment during the year.

Kellogg Company Master Trust net assets at December 31, 2002 and 2001 and the changes in net assets for the year ended December 31, 2002 and the two months ended December 31, 2001 are as follows:

7

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

4. KELLOGG COMPANY MASTER TRUST

SCHEDULE OF NET ASSETS AND LIABILITIES OF MASTER TRUST INVESTMENT
ACCOUNTS

| | 2002 | 2001 |
|---|------------------|----------------|
| Cash/Equivalents | | |
| Interest bearing cash | \$ 21,986,590 | \$ 20,270,000 |
| Total cash/equivalents | 21,986,590 | 20,270,000 |
| Receivables | 2,227,281 | 3,260,000 |
| General Investments | | |
| Long Term U.S. Gov't Securities | 21,757,942 | 13,150,000 |
| Short Term U.S. Gov't Securities | 19,216,568 | 4,090,000 |
| Corporate Debt - Long Term | 4,944,928 | 11,240,000 |
| Corporate Debt - Short Term | 7,262,014 | 3,410,000 |
| Corporate Stocks - Common | 95,922,038 | 88,360,000 |
| Commingled Funds | 164,020,605 | 181,910,000 |
| Shares of Registered Investment Company | 100,512,901 | 79,620,000 |
| Guaranteed Investment Contracts | 674,814,554 | 524,250,000 |
| Total Investments | 1,088,451,550 | 906,080,000 |
| Total investments | 1,112,665,421 | 929,610,000 |
| Payables | | |
| Unsettled trades | (6,909,233) | (400,000) |
| Total liabilities | (6,909,233) | (400,000) |
| Net assets | \$ 1,105,756,188 | \$ 929,210,000 |
| Percentage interest held by the Plan | 56.4% | |

8

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KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

4. KELLOGG COMPANY MASTER TRUST

SCHEDULE OF CHANGES IN NET ASSETS AND LIABILITIES OF MASTER TRUST
INVESTMENT ACCOUNTS

| | FOR THE YEAR ENDED DECEMBER 31, 2002 |
|--|--|
| Transfers from prior Trustees | \$ 211,752,913 |
| Earnings on investments | |
| Interest | 34,075,591 |
| Dividends | 7,584,737 |
| Net realized gain (loss) | (14,486,361) |
| | ----- |
| Total additions | 238,926,880 |
| | ----- |
| Net transfer of assets out of investment account | (25,570,131) |
| Fees and commissions | (543,969) |
| | ----- |
| Total distributions | (26,114,100) |
| | ----- |
| Change in unrealized appreciation (depreciation) | (36,262,450) |
| | ----- |
| Net change in assets | 176,550,330 |
| Net assets at beginning of year | 929,205,858 |
| | ----- |
| Net assets at end of year | \$1,105,756,188 |
| | ===== |

9

KELLOGG COMPANY
SAVINGS AND INVESTMENT PLAN
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2002

SCHEDULE I

| (A) | (B) | (C) |
|---|--|-----|
| IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY | DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE, RATE OF INTEREST, COLLATERAL, PAR OR MATURITY VALUE | |
| Loans to participants (interest rate of 5.25% to 13.69%) | | |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 26, 2003

The Kellogg Company Savings and Investment Plan

By: /s/ John A. Bryant

John A. Bryant
Executive Vice President and Chief
Financial Officer, Kellogg Company

INDEX TO EXHIBITS TO FORM 11-K

| EXHIBIT NUMBER | DESCRIPTION OF DOCUMENT |
|----------------|--|
| 23 | Consent of Independent Auditors. |
| 99.1 | Section 906 Certification by John Bryant. |
| 99.2 | Section 906 Certification by Carlos Gutierrez. |