KELLOGG CO
Form 10-Q
May 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 2, 2016
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-4171
KELLOGG COMPANY

State of Incorporation—Delaware IRS Employer Identification No.38-0710690
One Kellogg Square, P.O. Box 3599, Battle Creek, MI 49016-3599
Registrant's telephone number: 269-961-2000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).
Yes x No ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

Common Stock outstanding as of April 30, 2016 — 350,048,199 shares

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Part I – FINANCIAL INFORMATION
Item 1. Financial Statements.
Kellogg Company and Subsidiaries
CONSOLIDATED BALANCE SHEET
(millions, except per share data)

	April 2, 2016 (unaudited)	January 2, 2016 *
Current assets		
Cash and cash equivalents	$ 310	$ 251
Accounts receivable, net	1,505	1,344
Inventories:		
Raw materials and supplies	330	315
Finished goods and materials in process	868	935
Deferred income taxes	—	227
Other prepaid assets	206	164
Total current assets	3,219	3,236
Property, net of accumulated depreciation of $5,263 and $5,236	3,617	3,621
Investments in unconsolidated entities	465	456
Goodwill	4,974	4,968
Other intangibles, net of accumulated amortization of $49 and $47	2,293	2,268
Pension	248	231
Other assets	481	471
Total assets	$ 15,297	$ 15,251
Current liabilities		
Current maturities of long-term debt	$ 1,264	$ 1,266
Notes payable	718	1,204
Accounts payable	1,926	1,907
Accrued advertising and promotion	465	447
Accrued income taxes	19	42
Accrued salaries and wages	212	325
Other current liabilities	558	548
Total current liabilities	5,162	5,739
Long-term debt	6,256	5,275
Deferred income taxes	447	685
Pension liability	937	946
Nonpension postretirement benefits	70	77
Other liabilities	384	391
Commitments and contingencies		
Equity		
Common stock, $.25 par value	105	105
Capital in excess of par value	754	745
Retained earnings	6,595	6,597
Treasury stock, at cost	(3,989)	(3,943)
Accumulated other comprehensive income (loss)	(1,434)	(1,376)
Total Kellogg Company equity	2,031	2,128
Noncontrolling interests	10	10
Total equity	2,041	2,138
Total liabilities and equity	$ 15,297	$ 15,251

* Condensed from audited financial statements.

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
(millions, except per share data)

(Results are unaudited)	Quarter ended April 2, 2016	Quarter ended April 4, 2015
Net sales	$3,395	$3,556
Cost of goods sold	2,150	2,311
Selling, general and administrative expense	807	861
Operating profit	438	384
Interest expense	217	54
Other income (expense), net	—	(26)
Income before income taxes	221	304
Income taxes	47	76
Earnings (loss) from unconsolidated entities	1	(1)
Net income	$175	$227
Net income (loss) attributable to noncontrolling interests	—	—
Net income attributable to Kellogg Company	$175	$227
Per share amounts:		
Basic	$0.50	$0.64
Diluted	$0.49	$0.64
Dividends per share	$0.50	$0.49
Average shares outstanding:		
Basic	351	355
Diluted	355	357
Actual shares outstanding at period end	350	353

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(millions)

(Results are unaudited)	Quarter ended April 2, 2016 Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 175
Other comprehensive income (loss):			
Foreign currency translation adjustments	(55)	29	(26)
Cash flow hedges:			
Unrealized gain (loss) on cash flow hedges	(57)	23	(34)
Reclassification to net income	2	(1)	1
Postretirement and postemployment benefits:			
Amount arising during the period:			
Prior service credit (cost)	—	—	—
Reclassification to net income:			
Net experience loss	1	—	1
Prior service cost	—	—	—
Other comprehensive income (loss)	$ (109)	$ 51	$ (58)
Comprehensive income			$ 117
Other comprehensive income (loss) attributable to noncontrolling interests			—
Comprehensive income attributable to Kellogg Company			$ 117

(Results are unaudited)	Quarter ended April 4, 2015 Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 227
Other comprehensive income (loss):			
Foreign currency translation adjustments	(62)	(21)	(83)
Cash flow hedges:			
Unrealized gain (loss) on cash flow hedges	8	(1)	7
Reclassification to net income	(4)	—	(4)
Postretirement and postemployment benefits:			
Amount arising during the period:			
Prior service credit (cost)	(1)	—	(1)
Reclassification to net income:			
Net experience loss	1	—	1
Prior service cost	3	(1)	2
Other comprehensive income (loss)	$ (55)	$ (23)	$ (78)
Comprehensive income			$ 149
Other comprehensive income (loss) attributable to noncontrolling interests			(1)
Comprehensive income attributable to Kellogg Company			$ 148

Refer to Notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF EQUITY
(millions)

(unaudited)	Common stock shares	Common stock amount	Capital in excess of par value	Retained earnings	Treasury stock shares	Treasury stock amount	Accumulated other comprehensive income (loss)	Total Kellogg Company equity	Non-controlling interests	Total equity
Balance, January 3, 2015	420	$ 105	$ 678	$ 6,689	64	$ (3,470)	$ (1,213)	$ 2,789	$ 62	$ 2,851
Common stock repurchases					11	(731)		(731)		(731)
Net income				614				614		614
Acquisition of noncontrolling interest, net									7	7
VIE deconsolidation									(58)	(58)
Dividends				(700)				(700)		(700)
Other comprehensive loss							(163)	(163)	(1)	(164)
Stock compensation			51					51		51
Stock options exercised and other			16	(6)	(5)	258		268		268
Balance, January 2, 2016	420	$ 105	$ 745	$ 6,597	70	$ (3,943)	$ (1,376)	$ 2,128	$ 10	$ 2,138
Common stock repurchases					3	(210)		(210)		(210)
Net income				175				175		175
Dividends				(176)				(176)		(176)
Other comprehensive loss							(58)	(58)		(58)
Stock compensation			15					15		15
Stock options exercised and other			(6)	(1)	(3)	164		157		157
Balance, April 2, 2016	420	$ 105	$ 754	$ 6,595	70	$ (3,989)	$ (1,434)	$ 2,031	$ 10	$ 2,041

Refer to notes to Consolidated Financial Statements.

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Kellogg Company and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
(millions)

(unaudited)	Quarter ended April 2, 2016	April 4, 2015
Operating activities		
Net income	$ 175	$ 227
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	115	131
Postretirement benefit plan expense (benefit)	(28)	(21)
Deferred income taxes	—	(2)
Stock compensation	15	10
Venezuela remeasurement	6	—
Variable-interest entity impairment	—	25
Other	(33)	22
Postretirement benefit plan contributions	(17)	(12)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(201)	(240)
Inventories	49	70
Accounts payable	89	92
Accrued income taxes	(13)	33
Accrued interest expense	12	17
Accrued and prepaid advertising, promotion and trade allowances	12	(12)
Accrued salaries and wages	(113)	(88)
All other current assets and liabilities	(63)	(92)
Net cash provided by (used in) operating activities	5	160
Investing activities		
Additions to properties	(144)	(148)
Acquisitions, net of cash acquired	(18)	(117)
Other	7	3
Net cash provided by (used in) investing activities	(155)	(262)
Financing activities		
Net issuances (reductions) of notes payable	(485)	(19)
Issuances of long-term debt	1,382	672
Reductions of long-term debt	(473)	(243)
Net issuances of common stock	164	57
Common stock repurchases	(198)	(285)
Cash dividends	(176)	(174)
Other	—	5
Net cash provided by (used in) financing activities	214	13
Effect of exchange rate changes on cash and cash equivalents	(5)	(5)
Increase (decrease) in cash and cash equivalents	59	(94)
Cash and cash equivalents at beginning of period	251	443
Cash and cash equivalents at end of period	$ 310	$ 349
Supplemental cash flow disclosures		
Interest paid	$ 199	$ 40

Income taxes paid	$ 59	$ 50
Supplemental cash flow disclosures of non-cash investing activities:		
Additions to properties included in accounts payable*	$ 88	$ 71

*The Q1 2015 Consolidated Statement of Cash Flows has been revised to correctly eliminate the non-cash effect of accrued capital expenditures of $65 million from Changes in accounts payable, resulting in an increase in net cash provided by operations and from Additions to properties, resulting in an increase in net cash provided by investing activities. These revisions were not considered material to the previously issued Q1 2015 financial statements.
Refer to Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
for the quarter ended April 2, 2016 (unaudited)
Note 1 Accounting policies
Basis of presentation
The unaudited interim financial information of Kellogg Company (the Company) included in this report reflects all 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 2015 Annual Report on Form 10-K.
The condensed balance sheet information at January 2, 2016 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 April 2, 2016 are not necessarily indicative of the results to be expected for other interim periods or the full year.
Accounts payable
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 payment obligations from the Company to designated third-party financial institutions. 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 payment terms or vendor funding, created by facilitating suppliers’ ability to sell payment obligations, 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 April 2, 2016, $566 million of the Company’s outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $392 million of those payment obligations to participating financial institutions. As of January 2, 2016, $501 million of the Company’s outstanding payment obligations had been placed in the accounts payable tracking system, and participating suppliers had sold $407 million of those payment obligations to participating financial institutions.
New accounting standards
Improvements to employee share-based payment accounting. In March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) as part of its simplification initiative. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company early adopted the accounting standard update in the first quarter of 2016. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The main provisions of the ASU are as follows:

- Excess tax benefits and deficiencies for share-based payments are recorded as an adjustment of income taxes and reflected in operating cash flows after adoption of this ASU. Excess tax benefits and deficiencies were previously recorded in equity and as financing cash flows prior to adoption of this ASU. The Company adopted this provision prospectively and recorded $12 million of excess tax benefits for the first quarter of 2016, which is reported as operating cash flows on the Consolidated Cash Flow Statement. Please see Note 10 for additional information on the adoption of this provision.
- The guidance allows the employer to withhold up to the maximum statutory tax rates in the applicable jurisdictions without triggering liability accounting. The Company's accounting treatment of outstanding equity awards was not impacted by its adoption of this provision of the ASU.
- The guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company is not making this election, and will continue to account for forfeitures on an estimated basis.

Balance sheet classification of deferred taxes. In November 2015, the FASB issued an ASU to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as

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noncurrent in a classified statement of financial position. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities should apply the new guidance either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. The Company early adopted the updated standard in the first quarter of 2016, on a prospective basis. The year-end 2015 balances for current deferred tax assets and current deferred liabilities was $227 million and $9 million, respectively. Prior period balances have not been adjusted.

Simplifying the presentation of debt issuance costs. In April 2015, the FASB issued an ASU to simplify the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption was permitted. Entities should apply the new guidance on a retrospective basis. The Company adopted the updated standard in the first quarter of 2016 with no significant impact on its financial statements.

Simplifying the accounting for measurement-period adjustments. In September 2015, the FASB issued an ASU to simplify the accounting for measurement-period adjustments for items in a business combination. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Entities should apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not been issued. The Company adopted the updated standard in the first quarter of 2016 with no significant impact on its financial statements.

Customer's accounting for fees paid in a cloud computing arrangement. In April 2015, the FASB issued an ASU to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Entities should apply the new guidance either; 1) prospectively to all arrangements entered into or materially modified after the effective date or 2) retrospectively. The Company adopted the updated standard prospectively in the first quarter of 2016 with no significant impact on its financial statements.

Accounting standards to be adopted in future periods

Leases. In February 2016, the FASB issued an ASU which will require the recognition of lease assets and lease liabilities by lessees for all leases with terms greater than 12 months. The distinction between finance leases and operating leases will remain, with similar classification criteria as current GAAP to distinguish between capital and operating leases. The principal difference from current guidance is that the lease assets and lease liabilities arising from operating leases will be recognized on the Consolidated Balance Sheet. Lessor accounting remains substantially similar to current GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that implementing this ASU will have on its financial statements and disclosures, as well as timing of implementation.

Recognition and measurement of financial assets and liabilities. In January 2016, the FASB issued an ASU which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. Entities should apply the update by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company will adopt the updated standard in the first quarter of 2018. The Company does not expect the adoption of this guidance to have a significant impact on its financial statements.

Revenue from contracts with customers. In May 2014, the FASB issued an 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 to 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. When the ASU was originally issued it was effective for fiscal years, and interim periods

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within those years, beginning after December 15, 2016, and early adoption was not permitted. On July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The updated standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. 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. The Company will adopt the updated standard in the first quarter of 2018. 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 Sale of accounts receivable

During the quarter ended April 2, 2016, the Company entered into an agreement (the “Receivable Sales Agreement”), to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Consolidated Balance Sheet. The Receivable Sales Agreement provides for the continuing sale of certain receivables on a revolving basis until terminated by either party; however the maximum funding from receivables that may be sold at any time is currently $350 million. During the quarter ended April 2, 2016, $53 million of accounts receivable was sold via this arrangement and the Company recorded cash proceeds of the same amount and paid a fee of less than one percent. Cash flows related to the sales of receivables are included in cash from operating activities in the consolidated statement of cash flows. The recorded net loss on sale of receivables is included in other income and expense and is not material.

The Company has no retained interests in the receivables sold, however the Company does have collection and administrative responsibilities for the sold receivables. The Company has not recorded any servicing assets or liabilities as of April 2, 2016 for this agreement as the fair value of these servicing arrangements as well as the fees earned were not material to the financial statements.

Note 3 Goodwill and other intangible assets

Acquisition

In March 2016, the Company completed the acquisition of an organic and natural snack company for $18 million, which was accounted for under the purchase method and financed with cash on hand. The assets, which primarily consist of indefinite lived brand assets, and liabilities are included in the Consolidated Balance Sheet as of April 2, 2016 within the North America Other segment.

Joint Venture

In January 2016, the Company formed a Joint Venture with Tolaram Africa to develop snacks and breakfast foods for the West Africa market. In connection with the formation, the Company contributed the rights to indefinitely use the Company’s brands in these categories, including the Pringles brand. Accordingly, the Company recorded a contribution of $5 million of intangible assets not subject to amortization with a corresponding increase in Investments In Unconsolidated Entities during the quarter ended April 2, 2016, which represents the value attributed to the Pringles brand for this market.

Carrying amount of goodwill (millions)	U.S.	U.S.	U.S.	North	Europe	Latin	Asia	Consoli-

	Morning Foods	Snacks	Specialty	America Other		America	Pacific	dated
January 2, 2016	$ 131	$3,568	$ 82	$ 456	$ 431	$ 76	$ 224	$ 4,968
Currency translation adjustment	—	—	—	3	1	—	2	6
April 2, 2016	$ 131	$3,568	$ 82	$ 459	$ 432	$ 76	$ 226	$ 4,974

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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
January 2, 2016	$ 8	$ 42	$ —	$ 5	$ 45	$ 6	$ 10	$ 116
Currency translation adjustment	—	—	—	—	—	—	—	—
April 2, 2016	$ 8	$ 42	$ —	$ 5	$ 45	$ 6	$ 10	$ 116
Accumulated Amortization								
January 2, 2016	$ 8	$ 16	$ —	$ 4	$ 11	$ 6	$ 2	$ 47
Amortization	—	1	—	—	1	—	—	2
April 2, 2016	$ 8	$ 17	$ —	$ 4	$ 12	$ 6	$ 2	$ 49
Intangible assets subject to amortization, net								
January 2, 2016	$ —	$ 26	$ —	$ 1	$ 34	$ —	$ 8	$ 69
Currency translation adjustment	—	—	—	—	—	—	—	—
Amortization	—	(1)	—	—	(1)	—	—	(2)
April 2, 2016	$ —	$ 25	$ —	$ 1	$ 33	$ —	$ 8	$ 67

For intangible assets in the preceding table, amortization was $2 million for the quarters ended April 2, 2016 and April 4, 2015. The currently estimated aggregate annual amortization expense for full-year 2016 is approximately $8 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
January 2, 2016	$ —	$1,625	$ —	$ 158	$416	$ —	$ —	$2,199
Additions	—	—	—	18	—	—	—	18
Contribution to joint venture	—	—	—	—	(5)	—	—	(5)
Currency translation adjustment	—	—	—	1	13	—	—	14
April 2, 2016	$ —	$1,625	$ —	$ 177	$424	$ —	$ —	$2,226

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Note 4 Investments in unconsolidated entities

In September 2015, the Company acquired, for $445 million, a 50% interest in Multipro Singapore Pte. Ltd. (Multipro), a leading distributor of a variety of food products in Nigeria and Ghana and also obtained an option to acquire 24.5% of an affiliated food manufacturing entity under common ownership based on a fixed multiple of future earnings as defined in the agreement (Purchase Option). The amount paid is subject to purchase price adjustments, including the finalization of Multipro's 2015 earnings as defined in the agreement. The acquisition of the 50% interest is accounted for under the equity method of accounting. The Purchase Option, which was recorded at cost and will be monitored for impairment through the exercise period, which is upon the earlier of the entity achieving a minimum level of earnings as defined in the agreement, in which case the Company has a one year exercise period, or 2020. The difference between the amount paid for Multipro and the underlying equity in net assets is primarily attributable to intangible assets, a portion of which will be amortized in future periods, and goodwill.

Note 5 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.

Project K

Project K, a four-year efficiency and effectiveness program, was announced in November 2013, and is expected to continue generating a significant amount of savings that may 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 is 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 continue 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 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 investments, estimated to be $900 million to $1.1 billion. Based on current estimates and actual charges to date, the Company expects the total project charges will consist of asset-related costs totaling $400 to $450 million which will consist primarily of asset impairments, accelerated depreciation and other exit-related costs; employee-related costs totaling $400 to $450 million which will include severance, pension and other termination benefits; and other costs totaling $400 to $500 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.

The Company currently expects that total pre-tax charges will impact reportable segments as follows: U.S. Morning Foods (approximately 18%), U.S. Snacks (approximately 13%), U.S. Specialty (approximately 1%), North America Other (approximately 10%), Europe (approximately 17%), Latin America (approximately 2%), Asia-Pacific (approximately 6%), and Corporate (approximately 33%). Certain costs impacting Corporate relate to additional initiatives to be approved and executed in the future. When these initiatives are fully defined and approved, the Company will update its estimated costs by reportable segment as needed.

Since the inception of Project K, the Company has recognized charges of $862 million that have been attributed to the program. The charges consist of $6 million recorded as a reduction of revenue, $535 million recorded in COGS and $321 million recorded in SGA.

Other Projects

In 2015 the Company initiated the implementation of a zero-based budgeting (ZBB) program in its North America business that is expected to deliver visibility to ongoing annual savings. During 2016 ZBB was expanded to include the international segments of the business. In support of the ZBB initiative, the Company incurred pre-tax charges

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of approximately $7 million during the quarter ended April 2, 2016. Total charges of $19 million have been recognized since the inception of the ZBB program.

Total Projects

During the quarter ended April 2, 2016, the Company recorded total charges of $52 million across all restructuring and cost reduction activities. The charges were comprised of $18 million recorded in cost of goods sold (COGS) and $34 million recorded in selling, general and administrative (SGA) expense.

During the quarter ended April 4, 2015, the Company recorded total charges of $68 million across all restructuring and cost reduction activities. The charges were comprised of $2 million being recorded as a reduction of revenue, $32 million recorded in COGS and $34 million recorded in SGA expense.

The tables below provide the details for charges across all restructuring and cost reduction activities incurred during the quarter and year-to-date periods ended April 2, 2016 and April 4, 2015 and program costs to date for programs currently active as of April 2, 2016.

(millions)	Quarter ended April 2, 2016	Quarter ended April 4, 2015	Program costs to date April 2, 2016
Employee related costs	$14	$ 17	$ 273
Asset related costs	10	23	156
Asset impairment	—	—	105
Other costs	28	28	347
Total	$52	$ 68	$ 881

(millions)	Quarter ended April 2, 2016	Quarter ended April 4, 2015	Program costs to date April 2, 2016
U.S. Morning Foods	$5	$ 8	$ 223
U.S. Snacks	20	9	146
U.S. Specialty	2	1	13
North America Other	9	6	99
Europe	14	19	187
Latin America	—	—	16
Asia Pacific	—	5	74
Corporate	2	20	123
Total	$52	$ 68	$ 881

For the quarters ended April 2, 2016 and April 4, 2015 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.

At April 2, 2016 total exit cost reserves were $81 million, related to severance payments and other costs of which a substantial portion will be paid out in 2016 and 2017. The following table provides details for exit cost reserves.

	Employee Related Costs	Asset Impairment	Asset Related Costs	Other Costs	Total
Liability as of January 2, 2016	$ 55	$ —	$ —	$33	$88
2016 restructuring charges	14	—	10	28	52
Cash payments	(20)	—	(7)	(29)	(56)
Non-cash charges and other	—	—	(3)	—	(3)
Liability as of April 2, 2016	$ 49	$ —	$ —	$32	$81

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Note 6 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 table. There were 2 million anti-dilutive potential common shares excluded from the reconciliation for the quarters ended April 2, 2016 and April 4, 2015.

Quarters ended April 2, 2016 and April 4, 2015:

(millions, except per share data)	Net income attributable to Kellogg Company	Average shares outstanding	Earnings per share
2016			
Basic	$ 175	351	$ 0.50
Dilutive potential common shares		4	(0.01)
Diluted	$ 175	355	$ 0.49
2015			
Basic	$ 227	355	$ 0.64
Dilutive potential common shares		2	—
Diluted	$ 227	357	$ 0.64

In February 2014, the Company's board of directors approved a share repurchase program authorizing the repurchase of up to $1.5 billion of our common stock through December 2015. In December 2015, the board of directors approved a new authorization to repurchase of up to $1.5 billion of our common stock beginning in 2016 through December 2017.

During the quarter ended April 2, 2016, the Company repurchased approximately 3 million shares of common stock for a total of $210 million, of which $198 million was paid and $12 million payable at quarter-end. During the quarter ended April 4, 2015, the Company repurchased 4 million shares of common stock for a total of $285 million.

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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.

Reclassifications out of Accumulated Other Comprehensive Income (AOCI) for the quarters ended April 2, 2016 and April 4, 2015 consisted of the following:

(millions)

Details about AOCI components	Amount reclassified from AOCI		Line item impacted within Income Statement
	Quarter ended April 2, 2016	Quarter ended April 4, 2015	
(Gains) losses on cash flow hedges:			
Foreign currency exchange contracts			