

KRAFT FOODS INC
Form 10-Q
November 09, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

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 1-16483

Kraft Foods Inc.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

Three Lakes Drive, Northfield, Illinois
(Address of principal executive offices)

52-2284372
(I.R.S. Employer
Identification No.)

60093
(Zip Code)

Registrant's telephone number, including area code **(847) 646-2000**

Former name, former address and former fiscal year, if changed since last report

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 No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

At October 31, 2006, there were 463,780,369 shares of the registrant's Class A Common Stock outstanding, and 1,180,000,000 shares of the registrant's Class B Common Stock outstanding.

KRAFT FOODS INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 655	\$ 316
Receivables (less allowances of \$84 in 2006 and \$92 in 2005)	3,573	3,385
Inventories:		
Raw materials	1,554	1,363
Finished product	2,303	1,980
	3,857	3,343
Deferred income taxes	549	879
Other current assets	325	230
Total current assets	8,959	8,153
Property, plant and equipment, at cost	17,363	16,598
Less accumulated depreciation	7,554	6,781
	9,809	9,817
Goodwill	25,740	24,648
Other intangible assets, net	10,075	10,516
Prepaid pension assets	3,632	3,617
Other assets	625	877
TOTAL ASSETS	\$ 58,840	\$ 57,628

See notes to condensed consolidated financial statements.

Continued

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Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Continued)
(in millions of dollars)
(Unaudited)

	September 30, 2006	December 31, 2005
LIABILITIES		
Short-term borrowings	\$ 1,046	\$ 805
Current portion of long-term debt	2,666	1,268
Due to Altria Group, Inc. and affiliates	475	652
Accounts payable	2,376	2,270
Accrued liabilities:		
Marketing	1,462	1,529
Employment costs	746	625
Other	1,648	1,338
Income taxes	452	237
Total current liabilities	10,871	8,724
Long-term debt	7,081	8,475
Deferred income taxes	5,689	6,067
Accrued postretirement health care costs	1,994	1,931
Other liabilities	2,807	2,838
Total liabilities	28,442	28,035
Contingencies (Note 8)		
SHAREHOLDERS EQUITY		
Class A common stock, no par value (555,000,000 shares issued in 2006 and 2005)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding in 2006 and 2005)		
Additional paid-in capital	23,580	23,835
Earnings reinvested in the business	10,914	9,453
Accumulated other comprehensive losses (including currency translation of \$(824) in 2006 and \$(1,290) in 2005)	(1,256)	(1,663)
	33,238	31,625
Less cost of repurchased stock (90,844,488 Class A shares in 2006 and 65,119,245 Class A shares in 2005)	(2,840)	(2,032)
Total shareholders equity	30,398	29,593
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 58,840	\$ 57,628

See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries
 Condensed Consolidated Statements of Earnings
 (in millions of dollars, except per share data)
 (Unaudited)

	For the Nine Months Ended	
	September 30,	2005
	2006	2005
Net revenues	\$ 24,985	\$ 24,450
Cost of sales	15,869	15,580
Gross profit	9,116	8,870
Marketing, administration and research costs	5,242	5,216
Asset impairment and exit costs	553	205
Gain on redemption of United Biscuits investment	(251)	
Losses (gains) on sales of businesses, net	14	(115)
Amortization of intangibles	6	9
Operating income	3,552	3,555
Interest and other debt expense, net	377	489
Earnings from continuing operations before income taxes and minority interest	3,175	3,066
Provision for income taxes	735	932
Earnings from continuing operations before minority interest	2,440	2,134
Minority interest in earnings from continuing operations, net	4	3
Earnings from continuing operations	2,436	2,131
Loss from discontinued operations, net of income taxes		(272)
Net earnings	\$ 2,436	\$ 1,859
Per share data:		
Basic earnings per share:		
Continuing operations	\$ 1.48	\$ 1.26
Discontinued operations		(0.16)
Net earnings	\$ 1.48	\$ 1.10
Diluted earnings per share:		
Continuing operations	\$ 1.47	\$ 1.26
Discontinued operations		(0.16)
Net earnings	\$ 1.47	\$ 1.10
Dividends declared	\$ 0.71	\$ 0.64

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See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries
 Condensed Consolidated Statements of Earnings
 (in millions of dollars, except per share data)
 (Unaudited)

	For the Three Months Ended September 30,	
	2006	2005
Net revenues	\$ 8,243	\$ 8,057
Cost of sales	5,243	5,201
Gross profit	3,000	2,856
Marketing, administration and research costs	1,765	1,678
Asset impairment and exit costs	125	26
Gain on redemption of United Biscuits investment	(251)	
Losses on sales of businesses	3	
Amortization of intangibles	1	4
Operating income	1,357	1,148
Interest and other debt expense, net	134	139
Earnings before income taxes and minority interest	1,223	1,009
Provision for income taxes	473	334
Earnings before minority interest	750	675
Minority interest in earnings, net	2	1
Net earnings	\$ 748	\$ 674
Per share data:		
Basic earnings per share	\$ 0.46	\$ 0.40
Diluted earnings per share	\$ 0.45	\$ 0.40
Dividends declared	\$ 0.25	\$ 0.23

See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries
 Condensed Consolidated Statements of Shareholders Equity
 For the Year Ended December 31, 2005 and
 the Nine Months Ended September 30, 2006
 (in millions of dollars, except per share data)
 (Unaudited)

	Class A and B Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Earnings/(Losses)		Total	Cost of Repurchased Stock	Total Share- holders Equity
				Currency Translation Adjustments	Other			
Balances, January 1, 2005	\$	\$ 23,762	\$ 8,304	\$ (890)	\$ (315)	\$ (1,205)	\$ (950)	\$ 29,911
Comprehensive earnings:								
Net earnings			2,632					2,632
Other comprehensive losses, net of income taxes:								
Currency translation adjustments				(400)		(400)		(400)
Additional minimum pension liability					(48)	(48)		(48)
Change in fair value of derivatives accounted for as hedges					(10)	(10)		(10)
Total other comprehensive losses								(458)
Total comprehensive earnings								2,174
Exercise of stock options and issuance of other stock awards								
Cash dividends declared (\$0.87 per share)		52	(12)				118	158
Class A common stock repurchased			(1,471)				(1,200)	(1,471)
Other		21						21
Balances, December 31, 2005		23,835	9,453	(1,290)	(373)	(1,663)	(2,032)	29,593
Comprehensive earnings:								
Net earnings			2,436					2,436
Other comprehensive earnings (losses), net of income taxes:								
Currency translation adjustments				466		466		466
Additional minimum pension liability					(25)	(25)		(25)
Change in fair value of derivatives accounted for as hedges					(34)	(34)		(34)
Total other comprehensive earnings								407
Total comprehensive earnings								2,843
Exercise of stock options and issuance of other stock awards								
Cash dividends declared (\$0.71 per share)		(255)	202				129	76
Class A common stock repurchased			(1,177)				(937)	(1,177)
Balances, September 30, 2006	\$	\$ 23,580	\$ 10,914	\$ (824)	\$ (432)	\$ (1,256)	\$ (2,840)	\$ 30,398

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Total comprehensive earnings were \$697 million and \$671 million, respectively, for the quarters ended September 30, 2006 and 2005 and \$1,628 million for the first nine months of 2005.

See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows
 (in millions of dollars)
 (Unaudited)

	For the Nine Months Ended September 30,	
	2006	2005
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	\$ 2,436	\$ 1,859
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	654	651
Deferred income tax benefit	(29)	(280)
Integration costs, net of cash paid		(1)
Gain on redemption of United Biscuits investment	(251)	
Losses (gains) on sales of businesses, net	14	(115)
Loss on sale of discontinued operations		32
Asset impairment and exit costs, net of cash paid	389	86
Cash effects of changes, net of the effects from acquired and divested companies:		
Receivables, net	38	163
Inventories	(526)	(409)
Accounts payable	84	(30)
Income taxes	130	212
Amounts due to Altria Group, Inc. and affiliates	(214)	96
Other working capital items	(139)	(308)
Change in pension assets and postretirement liabilities, net	75	(55)
Other	135	137
Net cash provided by operating activities	2,796	2,038
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(687)	(784)
Proceeds from sales of businesses	674	1,652
Other	82	21
Net cash provided by investing activities	69	889

See notes to condensed consolidated financial statements.

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Kraft Foods Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (Continued)
 (in millions of dollars)
 (Unaudited)

	For the Nine Months Ended	
	September 30,	
	2006	2005
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Net repayment of short-term borrowings	\$ (317)	\$ (772)
Long-term debt proceeds	49	52
Long-term debt repaid	(57)	(761)