

Sara Lee Corp
Form 10-Q
May 10, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

Commission file number 1-3344

Sara Lee Corporation

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

3500 Lacey Road, Downers Grove, Illinois 60515

(Address of principal executive offices)

(Zip Code)

36-2089049
(I.R.S. Employer

Identification No.)

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(630) 598-6000

(Registrant's telephone number, including area code)

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

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

On March 31, 2007, the Registrant had 734,581,146 outstanding shares of common stock \$.01 par value, which is the Registrant's only class of common stock.

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SARA LEE CORPORATION AND SUBSIDIARIES

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PART I

SARA LEE CORPORATION AND SUBSIDIARIES

Preface

The preparation of the Consolidated Financial Statements requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses and certain financial statement disclosures. Significant estimates in these Consolidated Financial Statements include allowances for doubtful accounts receivable, net realizable value of inventories, the cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, identifiable intangible assets and goodwill, income tax and valuation reserves, the valuation of assets and liabilities acquired in business combinations, assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans and the volatility and expected lives for stock compensation instruments granted to employees. Actual results could differ from these estimates.

The corporation's fiscal year ends on the Saturday closest to June 30. The third quarter and first nine months of fiscal 2007 ended on March 31, 2007 and the third quarter and first nine months of fiscal 2006 ended on April 1, 2006. Each of these quarters was a thirteen-week period and each nine-month period was a thirty-nine week period.

The Consolidated Financial Statements for the quarters and nine month periods ended March 31, 2007 and April 1, 2006 and the balance sheet as of July 1, 2006 included herein have not been audited by an independent registered public accounting firm, but in the opinion of Sara Lee Corporation (the corporation), all adjustments (which include only normal recurring adjustments) necessary to make a fair statement of the financial position at March 31, 2007 and the results of operations and the cash flows for the periods presented herein have been made. The Condensed Consolidated Balance Sheet as of July 1, 2006 and the Consolidated Statement of Common Stockholders' Equity for the period July 2, 2005 to July 1, 2006 have been derived from the corporation's audited financial statements included in our annual report on Form 10-K for the fiscal year ended July 1, 2006. The results of operations for the quarter and first nine months ended March 31, 2007 are not necessarily indicative of the operating results to be expected for the full fiscal year.

The Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Although the corporation believes the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the corporation's Form 10-K for the year ended July 1, 2006 and other financial information filed with the Securities and Exchange Commission.

Table of Contents**SARA LEE CORPORATION AND SUBSIDIARIES****Condensed Consolidated Balance Sheets at March 31, 2007 and July 1, 2006****(Unaudited)****(In millions)**

	March 31, 2007	July 1, 2006
Assets		
Cash and equivalents	\$ 2,232	\$ 2,231
Short-term investments	359	
Trade accounts receivable, less allowances	1,287	1,216
Inventories		
Finished goods	731	603
Work in process	36	38
Materials and supplies	305	278
	1,072	919
Other current assets	295	317
Assets of discontinued operations held for disposal		2,253
Total current assets	5,245	6,936
Other noncurrent assets	106	109
Property, net of accumulated depreciation of \$2,883 and \$2,708, respectively	2,373	2,319
Trademarks and other identifiable intangibles, net	1,043	1,049
Goodwill	2,713	2,774
Assets held for sale	2	1
Assets of discontinued operations held for disposal		1,563
	\$ 11,482	\$ 14,751
Liabilities and Stockholders' Equity		
Notes payable	\$ 40	\$ 1,776
Accounts payable	926	1,022
Accrued liabilities	1,990	2,252
Current maturities of long-term debt	981	366
Liabilities of discontinued operations held for disposal		1,024
Total current liabilities	3,937	6,440
Long-term debt	3,241	3,806
Pension obligation	269	233
Deferred tax liability	171	66
Other liabilities	1,176	1,327
Liabilities of discontinued operations held for disposal		367
Minority interests in subsidiaries	58	63
Common stockholders' equity	2,630	2,449
	\$ 11,482	\$ 14,751

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SARA LEE CORPORATION AND SUBSIDIARIES****Consolidated Statements of Income****For the Quarter and Nine Months Ended March 31, 2007 and April 1, 2006****(In millions, except per share data)****(Unaudited)**

	Quarter Ended		Nine Months Ended	
	March 31,	April 1,	March 31,	April 1,
	2007	2006	2007	2006
Continuing operations				
Net sales	\$ 3,006	\$ 2,754	\$ 9,079	\$ 8,491
Cost of sales	1,820	1,694	5,588	5,217
Selling, general and administrative expenses	1,000	923	2,982	2,875
Net charges for (income from) exit activities, asset and business dispositions	30	(14)	69	41
Impairment charges	4		156	
Contingent sale proceeds			(120)	(114)
Interest expense	66	76	203	224
Interest income	(36)	(18)	(96)	(55)
	2,884	2,661	8,782	8,188
Income from continuing operations before income taxes	122	93	297	303
Income tax expense (benefit)	9	16	(14)	82
Income from continuing operations	113	77	311	221
Discontinued operations				
Net income (loss) from discontinued operations, net of tax expense of \$0, \$39, \$30, and \$4		(102)	62	44
Gain on disposition of discontinued operations, net of tax expense (benefit) of \$0, (\$43), \$2, and \$60	3	67	14	282
Net income	\$ 116	\$ 42	\$ 387	\$ 547
Income from continuing operations per common share				
Basic	\$ 0.15	\$ 0.10	\$ 0.42	\$ 0.29
Diluted	\$ 0.15	\$ 0.10	\$ 0.42	\$ 0.29
Net income per common share				
Basic	\$ 0.16	\$ 0.06	\$ 0.52	\$ 0.71
Diluted	\$ 0.16	\$ 0.06	\$ 0.52	\$ 0.71
Average shares outstanding				
Basic	735	761	744	768
Diluted	738	765	746	770

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Cash dividends per common share	\$ 0.1000	\$ 0.1975	\$ 0.3000	\$ 0.5925
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See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SARA LEE CORPORATION AND SUBSIDIARIES****Consolidated Statements of Common Stockholders' Equity****For the Period July 2, 2005 to March 31, 2007****(In millions, except per share data)**

	TOTAL	COMMON STOCK	CAPITAL SURPLUS	RETAINED EARNINGS	UNEARNED STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	COMPREHENSIVE INCOME
Balances at July 2, 2005	\$ 2,732	\$ 8	\$ 79	\$ 4,361	\$ (155)	\$ (1,561)	
Net income	547			547			\$ 547
Translation adjustments, net of tax	(15)					(15)	(15)
Net unrealized gain / (loss) on qualifying cash flow hedges, net of tax	(31)					(31)	(31)
Comprehensive income							\$ 501
Cash dividends -							
Common (\$0.5925 per share)	(454)			(454)			
Stock issuances (cancellations) -							
Stock option and benefit plans	28		28				
Restricted stock	46		46				
Share repurchases and retirement	(561)		(107)	(454)			
ESOP contributions and other	5		(1)		6		
Balances at April 1, 2006	2,297	8	45	4,000	(149)	(1,607)	
Net income	8			8			\$ 8
Translation adjustments, net of tax	85					85	85
Minimum pension liability, net of tax	180					180	180
Net unrealized gain / (loss) on qualifying cash flow hedges, net of tax	3					3	3
Comprehensive income							\$ 276
Cash dividends -							
Common (\$0.1975 per share)	(157)			(157)			
Stock issuances (cancellations) -							
Stock option and benefit plans	5		5				
Restricted stock	9		9				
Tax benefit related to stock-based compensation	1		1				
ESOP contributions and other	18		2	4	12		
Balances at July 1, 2006	2,449	8	62	3,855	(137)	(1,339)	
Net income	387			387			\$ 387

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Translation adjustments, net of tax	462			462		462
Minimum pension liability, net of tax	(36)			(36)		(36)
Net unrealized gain / (loss) on qualifying cash flow hedges, net of tax	29			29		29
Comprehensive income					\$	842
Cash dividends - Common (\$0.30 per share)	(225)			(225)		
Spin off of Hanesbrands Inc. business	(18)			(85)		67
Stock issuances (cancellations) - Stock option and benefit plans	39		39			
Restricted stock	26		26			
Tax benefit related to stock-based compensation	2		2			
Share repurchases and retirement	(490)		(105)		(385)	
Other	5	(1)	1		5	
Balances at March 31, 2007	\$ 2,630	\$ 7	\$ 25	\$ 3,547	\$ (132)	\$ (817)

Interim period balances are unaudited.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SARA LEE CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the Nine Months Ended March 31, 2007 and April 1, 2006****(In millions)****(Unaudited)**

	Nine Months Ended March 31, 2007	April 1, 2006
Operating activities -		
Net income	\$ 387	\$ 547
Less: Cash received from contingent sale proceeds	(120)	(114)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	320	394
Amortization of intangibles	89	118
Impairment charges	156	394
Net gain on business dispositions	(38)	(428)
Decrease in deferred income taxes	(29)	(107)
Other	75	(5)
Changes in current assets and liabilities, net of businesses acquired and sold	(742)	64
Net cash from operating activities	98	863
Investment activities -		
Purchases of property and equipment	(354)	(355)
Purchases of software and other intangibles	(73)	(12)
Acquisitions of businesses and investments	(76)	(76)
Dispositions of businesses and investments	351	672
Cash received from loans receivable	688	33
Cash received from contingent sale proceeds	120	114
Cash used in derivative transactions	(25)	(37)
Cash used to invest in short-term investments	(639)	(639)
Cash received from maturing short-term investments	299	299
Sales of assets	59	78
Net cash from investment activities	426	417
Financing activities -		
Issuances of common stock	33	22
Purchases of common stock	(490)	(562)
Borrowings of long-term debt	2,895	35
Repayments of long-term debt	(407)	(243)
Short-term (repayments) borrowings, net	(1,713)	1,344
Cash transferred to Hanesbrands Inc. in spin off	(650)	(650)
Payments of dividends	(301)	(459)
Net cash (used in) from financing activities	(633)	137
Effect of changes in foreign exchange rates on cash	96	17

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(Decrease) increase in cash and equivalents	(13)	1,434
Add: Cash balance of discontinued operations at beginning of year	14	37
Less: Cash balance of discontinued operations at end of quarter		(32)
Cash and equivalents at beginning of year	2,231	533
Cash and equivalents at end of quarter	\$ 2,232	\$ 1,972
Components of changes in current assets and liabilities:		
Decrease in trade accounts receivable	\$ 8	\$ 79
(Increase) decrease in inventories	(138)	47
Increase in other current assets	(36)	(72)
Decrease in accounts payable	(52)	(131)
Decrease in accrued liabilities	(245)	(30)
(Decrease) increase in accrued taxes	(279)	171
Changes in current assets and liabilities, net of businesses acquired and sold	\$ (742)	\$ 64

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SARA LEE CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

1. Net Income Per Share

Net income per share basic is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Net income per share diluted reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock. For the quarter and nine month periods ended March 31, 2007, options to purchase 33.4 million and 35.9 million shares of the corporation's common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. For the quarter and nine month periods ended April 1, 2006, options to purchase 48.1 million and 44.8 million shares of the corporation's common stock had exercise prices that were greater than the average market price of those shares during the respective reporting periods. As a result, these shares are excluded from the earnings per share calculation, as they are anti-dilutive.

The average shares outstanding declined in the first nine months of fiscal 2007 as a result of shares repurchased under the corporation's ongoing share repurchase program. The corporation repurchases common stock at times management deems appropriate, given current market valuations. During the first nine months of fiscal 2007, the corporation repurchased 30.7 million shares of common stock for a purchase price of \$490 million. The corporation has a continuing share repurchase program under which the corporation may repurchase shares of common stock. At March 31, 2007, 55.6 million shares remain authorized for repurchase under this program. The timing and amount of future share repurchases will be based upon market conditions and other factors.

The following is a reconciliation of net income to net income per share basic and diluted for the third quarter and first nine months of fiscal 2007 and fiscal 2006:

Computation of Net Income per Common Share

(In millions, except per share data)

	Quarter ended		Nine Months ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Income from continuing operations	\$ 113	\$ 77	\$ 311	\$ 221
Income (loss) from discontinued operations, net of tax		(102)	62	44
Gain on disposition of discontinued operations, net of tax	3	67	14	282
Net income	\$ 116	\$ 42	\$ 387	\$ 547
Average shares outstanding basic	735	761	744	768
Dilutive effect of stock option and award plans	3	4	2	2
Diluted shares outstanding	738	765	746	770
Income (loss) from continuing operations per share				
Basic	\$ 0.15	\$ 0.10	\$ 0.42	\$ 0.29
Diluted	\$ 0.15	\$ 0.10	\$ 0.42	\$ 0.29
Income (loss) from discontinued operations per share				
Basic	\$	\$ (0.04)	\$ 0.10	\$ 0.43
Diluted	\$	\$ (0.04)	\$ 0.10	\$ 0.42

Net income (loss) per common share