Sara Lee Corp
Form 10-Q
November 10, 2010
Table of Contents

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 October 2, 2010

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	**36-2089049**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3500 Lacey Road, Downers Grove, Illinois 60515

(Address of principal executive offices)

(Zip Code)

(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 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 during the preceding 12 months (or for such 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 accelerated filer, large accelerated filer, smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

On October 2, 2010, the Registrant had 639,266,211 outstanding shares of common stock $.01 par value, which is the Registrant s only class of common stock.

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

INDEX

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets at October 2, 2010 and July 3, 2010

(Unaudited)

In millions	October 2, 2010	July 3, 2010
Assets		
Cash and equivalents	$ 1,125	$ 955
Trade accounts receivable, less allowances	1,229	1,187
Inventories		
Finished goods	497	406
Work in process	35	31
Materials and supplies	408	309
	940	746
Current deferred income taxes	225	262
Other current assets	332	370
Assets held for sale	270	260
Total current assets	4,121	3,780
Property, net of accumulated depreciation of $2,945 and $2,822, respectively	2,100	2,070
Trademarks and other identifiable intangibles, net	501	504
Goodwill	1,297	1,261
Deferred income taxes	243	225
Other noncurrent assets	174	164
Noncurrent assets held for sale	818	832
	$ 9,254	$ 8,836
Liabilities and Equity		
Notes payable	$ 111	$ 47
Accounts payable	979	1,005
Income taxes payable and current deferred taxes	14	8
Other accrued liabilities	1,254	1,255
Current maturities of long-term debt	473	16
Liabilities held for sale	291	253
Total current liabilities	3,122	2,584
Long-term debt	2,432	2,718
Pension obligation	513	530
Deferred income taxes	617	548
Other liabilities	1,052	931
Noncurrent liabilities held for sale	3	10
Equity		
Sara Lee common stockholders equity	1,486	1,487
Noncontrolling interest	29	28

Total Equity	1,515	1,515
	$ 9,254	$ 8,836

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

For the Quarters ended October 2, 2010 and September 26, 2009

(Unaudited)

In millions, except per share data	Oct. 2, 2010	Sept. 26, 2009
Continuing Operations		
Net sales	$ 2,575	$ 2,588
Cost of sales	1,663	1,619
Selling, general and administrative expenses	738	763
Net charges for exit activities, asset and business dispositions	5	13
Contingent sale proceeds		(133)
Operating income	169	326
Interest expense	36	35
Interest income	(6)	(6)
Debt extinguishment costs	30	
Income from continuing operations before income taxes	109	297
Income tax expense	41	106
Income from continuing operations	68	191
Discontinued operations		
Income from discontinued operations net of tax expense (benefit) of $21 and $(31)	37	96
Gain on sale of discontinued operations, net of tax expense of $166 and nil	89	
Net income from discontinued operations	126	96
Net income	194	287
Less: Income from noncontrolling interests, net of tax		
Continuing operations	2	1
Discontinued operations		2
Net income attributable to Sara Lee	$ 192	$ 284
Amounts attributable to Sara Lee:		
Net income from continuing operations	$ 66	$ 190
Net income from discontinued operations	126	94
Net income attributable to Sara Lee	$ 192	$ 284
Earnings per share of common stock		
Basic		

Income from continuing operations	$ 0.10	$ 0.27
Net income	$ 0.29	$ 0.41
Average shares outstanding	653	697
Diluted		
Income from continuing operations	$ 0.10	$ 0.27
Net income	$ 0.29	$ 0.41
Average shares outstanding	655	698
Cash dividends declared per share of common stock	$	$

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Equity

For the period June 27, 2009 to October 2, 2010

(Unaudited)

		Sara Lee Common Stockholders Equity					
In millions	Total	Common Stock	Capital Surplus	Retained Earnings	Unearned Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balances at June 27, 2009	$ 2,070	$ 7	$ 17	$ 2,721	$ (104)	$ (605)	$ 34
Net income	527			506			21
Translation adjustments, net of tax	(82)					(82)	
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax	8					8	
Pension/Postretirement activity, net of tax	(235)					(235)	
Other comprehensive income activity, net of tax	2					2	
Comprehensive income	$ 220						$ 21
Dividends on common stock	(302)			(302)			
Dividends paid on noncontrolling interest/Other	(2)						(2)
Disposition of noncontrolling interest	(25)						(25)
Stock issuances							
Restricted stock	27		27				
Stock option and benefit plans	19		19				
Share repurchases and retirement	(500)		(47)	(453)			
ESOP tax benefit, redemptions and other	8		1		7		
Balances at July 3, 2010	1,515	7	17	2,472	(97)	(912)	28
Net income	194			192			2
Translation adjustments, net of tax	193					193	
Pension/Postretirement activity, net of tax	(29)					(29)	
Comprehensive income	$ 358						$ 2
Dividends on common stock	2			2			
Dividends paid on noncontrolling interest/other	(1)						(1)
Stock issuances							
Stock option and benefit plans	4		4				
Restricted stock	11		2	9			
Share repurchases and retirement	(373)		(22)	(351)			
ESOP tax benefit, redemptions and other	(1)		(1)				
Balances at October 2, 2010	$ 1,515	$ 7	$	$ 2,324	$ (97)	$ (748)	$ 29

Total comprehensive income was $479 million in the first quarter of 2010, of which $475 million was attributable to Sara Lee.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Quarters ended October 2, 2010 and September 26, 2009

(Unaudited)

In millions	Quarter ended October 2, 2010	Quarter ended September 26, 2009
OPERATING ACTIVITIES		
Net income	$ 194	$ 287
Less: Cash received from contingent sale proceeds		(133)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	82	99
Amortization	21	27
Net (gain) loss on business dispositions	(255)	
Pension contributions, net of expense	(17)	28
Increase in deferred income taxes for unremitted earnings	77	
Debt extinguishment costs	30	
Other	21	24
Changes in current assets and liabilities, net of businesses acquired and sold		
Trade accounts receivable	35	(30)
Inventories	(140)	(80)
Other current assets	(64)	(2)
Accounts payable	9	(44)
Accrued liabilities	(47)	(37)
Accrued taxes	82	48
Net cash from operating activities	28	187
INVESTMENT ACTIVITIES		
Purchases of property and equipment	(66)	(59)
Purchases of software and other intangibles	(7)	(5)
Dispositions of businesses and investments	355	
Cash received from contingent sale proceeds		133
Cash received from derivative transactions	26	34
Sales of assets	7	6
Net cash received from investment activities	315	109
FINANCING ACTIVITIES		
Issuances of common stock	1	
Purchases of common stock	(373)	
Borrowings of other debt	890	8
Repayments of other debt	(708)	(35)
Net change in financing with less than 90-day maturities	(22)	62
Payments of dividends	(73)	(78)
Net cash used in financing activities	(285)	(43)

Effect of changes in foreign exchange rates on cash	112	51
Increase (decrease) in cash and equivalents	170	304
Add: Cash balances of discontinued operations at beginning of year		8
Less: Cash balances of discontinued operations at end of period		(12)
Cash and equivalents at beginning of year	955	951
Cash and equivalents at end of quarter	$ 1,125	$ 1,251
Supplemental Cash Flow Data:		
Cash paid for restructuring actions	$ 25	$ 36
Cash contributions to pension plans	30	5
Cash paid for income taxes	68	26

See accompanying Notes to Consolidated Financial Statements.

6

Table of Contents

SARA LEE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements for the first quarter ended October 2, 2010 have not been audited by an independent registered public accounting firm, but in the opinion of Sara Lee Corporation (corporation or company), these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position, operating results, and cash flows. The results of operations for the quarter ended October 2, 2010 are not necessarily indicative of the operating results to be expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of July 3, 2010 has been derived from the corporation s audited financial statements included in our Annual Report on Form 10-K for the year ended July 3, 2010. The businesses comprising the former International Household and Body Care segment are presented as discontinued operations in the corporation s consolidated financial statements. See Note 4 Discontinued Operations for additional information regarding these discontinued operations. Unless stated otherwise, any reference to income statement items in these financial statements refers to results from continuing operations.

The interim 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 annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited interim 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 3, 2010 and other financial information filed with the Securities and Exchange Commission. These financial statements consider subsequent events through the date of filing with the Securities and Exchange Commission.

The corporation s fiscal year ends on the Saturday closest to June 30. Fiscal 2011 ends on July 2, 2011. The first quarter of fiscal 2011 ended on October 2, 2010 and the first quarter of fiscal 2010 ended on September 26, 2009. Each of the quarters was a thirteen-week period. Fiscal 2011 is a 52-week year, whereas fiscal 2010 was a 53-week year. Unless otherwise stated, references to years relate to fiscal years.

Balance sheet correction During the first quarter of 2011, the corporation corrected an error in the classification of certain asset and liability balances in the balance sheet associated with casualty losses from workers compensation, auto liability and general liability claims by recording a portion of the liability for these losses and the related insurance receivable as long-term. The corporation has revised the 2010 balance sheet as follows:

	Balance at July 3, 2010	
(in millions)	**As Reported**	**As Adjusted**
Other current assets	$ 400	$ 370
Total current assets	3,810	3,780
Other noncurrent assets	134	164
Other accrued liabilities	1,394	1,255
Total current liabilities	2,723	2,584
Other liabilities	792	931

The corporation has concluded that this revision did not materially misstate previously issued financial statements. The prior year s condensed consolidated balance sheet has been revised in order to provide consistency and comparability in the classification of casualty reserves and the related insurance receivables.

Table of Contents

As noted in the Summary of Significant Accounting Policies footnote to the company s 2010 annual report, the majority of the corporation s shipping and handling costs is being recognized in the Selling, general and administrative expenses (SG&A) line of the Consolidated Income Statement. Beginning in 2011, the corporation has begun reporting all shipping and handling costs incurred after a product is considered complete and ready for sale in SG&A. Previously, the North American Fresh Bakery, North American Foodservice and International Beverage business segments were recognizing a portion of these costs in Cost of sales. The impact of this change is considered to be immaterial to both the consolidated quarterly and annual financial statements.

Consolidation of Variable Interest Entities In June 2009, the FASB issued an update to the guidance for determining whether an entity is a variable interest entity (VIE) and who is the primary beneficiary of the VIE. The new guidance requires an ongoing reassessment of the primary beneficiary of a VIE and new expanded disclosures surrounding the nature of the VIE and an entity s involvement with the VIE. The new guidance, which was effective for the corporation beginning in the first quarter of fiscal 2011, has not had a material impact on the consolidated financial statements.

The corporation consolidates variable interest entities (VIEs) of which it is the primary beneficiary. Legal entities with which the corporation becomes involved are assessed to determine whether such entities are VIEs and, if so, whether or not the corporation is the primary beneficiary. In general, the corporation determines whether it is the primary beneficiary of a VIE through a qualitative analysis of risk, which identifies which variable interest holder absorbs the majority of the financial risk or rewards and variability of the VIE. In performing this analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, terms of VIE contracts, identification of other variable interest holders, our explicit arrangements and our implicit variable interests.

The corporation enters into franchise agreements with independent third party contractors (Independent Operators) representing distribution rights to sell and distribute fresh bakery products via direct-store-delivery to retail outlets in defined sales territories. The corporation does not hold equity interests in any of the Independent Operator entities. Independent Operators generally finance the purchase of distribution rights through note agreements with a financial institution, which, in the aggregate, are partially guaranteed by Sara Lee. In addition, the corporation maintains explicit and implicit commitments to maintain the function of routes to ensure product delivery to customers. The corporation determined that all Independent Operators are variable interest entities of which it is the primary beneficiary, primarily as a result of Sara Lee s debt guarantee and other route maintenance obligations.

As a result of consolidating these Independent Operator variable interest entities, the corporation reflected the following in its balance sheets:

(in millions)	**October 2, 2010**	**July 3, 2010**
Inventories Finished goods	$ 1	$ 2
Property Machinery and equipment	21	22
Total assets	$ 22	$ 24
Current portion of long-term debt	$ 12	$ 12
Long-term debt excluding current portion	55	58
Total liabilities	$ 67	$ 70
Noncontrolling interests	$ 24	$ 23

Lease obligations presented within long-term debt captions on the balance sheet are secured by the vehicles subject to lease and do not represent additional claims on the corporation s general assets. The corporation s maximum exposure for loss associated with the Independent Operator entities is limited to $50 million of long-term debt of the Independent Operators as of October 2, 2010.

Table of Contents

2. Net Income (Loss) Per Share

The computation of net income (loss) per share only includes results attributable to Sara Lee and does not include earnings related to noncontrolling interests. Net income per share basic is computed by dividing net income (loss) attributable to Sara Lee 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 fixed awards to be issued under stock-based compensation awards were converted into common stock. For the quarter ended October 2, 2010, options to purchase 13.7 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 ended September 26, 2009, options to purchase 24.0 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. These shares are excluded from the earnings per share calculation as they are anti-dilutive.

The average shares outstanding declined in the first quarter of 2011 as compared to the first quarter of 2010 as a result of shares repurchased under the corporation s ongoing share repurchase program. During the first quarter of 2011, the corporation repurchased 24.4 million shares of common stock for $360 million. The corporation also paid $13 million as a final settlement on the accelerated share repurchase program (ASR) initiated in 2010. The ASR provided for a final settlement adjustment at termination based on the final volume weighted average stock price. As of October 2, 2010, the corporation was authorized to repurchase approximately $2.14 billion of common stock under its existing share repurchase program, plus 13.5 million shares of common stock that remain authorized for repurchase under the corporation s prior share repurchase program. The corporation repurchases common stock at times management deems appropriate. The timing and amount of future share repurchases will be based upon the completion of the corporation s sale of its household and body care businesses, market conditions and other factors.

The following is a reconciliation of net income to net income per share basic and diluted for the first quarter of 2011 and 2010 (per share amounts are rounded and may not add to total):

Computation of Net Income per Common Share

(In millions, except per share data)

	Oct. 2, 2010	Sept. 26, 2009
Amounts attributable to Sara Lee:		
Income from continuing operations	$ 66	$ 190
Income from discontinued operations	126	94
Net income	$ 192	$ 284
Average shares outstanding basic	653	697
Dilutive effect of stock option and award plans	2	1
Diluted shares outstanding	655	698
Earnings per common share Basic		
Income from continuing operations	$ 0.10	$ 0.27
Income from discontinued operations	$ 0.19	$ 0.13
Net income	$ 0.29	$ 0.41
Earnings per common share Diluted		
Income from continuing operations	$ 0.10	$ 0.27
Income from discontinued operations	$ 0.19	$ 0.13

Net income	$ 0.29	$ 0.41

9

Table of Contents

3. Segment Information

The following is a general description of the corporation s five business segments:

North American Retail sells a variety of packaged meat and frozen bakery products to retail customers in North America and includes the corporation s U.S. *Senseo* retail coffee business.

North American Fresh Bakery sells a variety of fresh bakery products to retail customers in North America.

North American Foodservice sells a variety of meat, bakery, and beverage products to foodservice customers in North America.

International Beverage sells coffee and tea products in major markets around the world, including Europe, Australia and Brazil.

International Bakery sells a variety of bakery and dough products to retail and foodservice customers in Europe and Australia.

The following is a summary of net sales and operating segment income by business segment for the first quarters of 2011 and 2010.

	Net Sales		Income before Income Taxes	
(In millions)	**First Quarter 2011**	**First Quarter 2010**	**First Quarter 2011**	**First Quarter 2010**
North American Retail	$ 707	$ 659	$ 63	$ 80
North American Fresh Bakery	516	541	(1)	14
North American Foodservice	445	457	29	38
International Beverage	728	734	90	123
International Bakery	186	204	8	6
Total business segments	2,582	2,595	189	261
Intersegment sales	(7)	(7)		
Total net sales and operating segment income	2,575	2,588	189	261
General corporate expenses			(25)	(55)
Mark-to-Market derivative gains/(losses)			14	(3)
Amortization of intangibles			(11)	(11)
Adjustment for noncontrolling interest			2	1
Contingent sale proceeds				133
Total net sales and operating income	2,575	2,588	169	326
Net interest expense			(30)	(29)
Debt extinguishment costs			(30)	
Net sales and income before income taxes	$ 2,575	$ 2,588	$ 109	$ 297

4. Discontinued Operations

In 2010, the corporation received binding offers for the sale of its global body care and European detergents businesses for 1.275 billion; its air care business for 320 million; and its non-Indian insecticides business for 154 million. The corporation is also actively marketing for sale its remaining household and body care businesses and, as a result, the businesses that formerly comprised the International Household and Body Care segment are classified as discontinued operations and are presented in a separate line in the Consolidated Statements of Income for all periods presented. The assets and liabilities of these businesses to be sold meet the accounting criteria to be classified as held for sale and have been aggregated and reported on separate lines of the Condensed Consolidated Balance Sheets for all periods presented.

In July 2010, the corporation completed the disposition of the majority of its air care business and anticipates closing on the sales of the body care and European detergents, and insecticides businesses during calendar 2010.

Table of Contents

The following is a summary of the operating results of the corporation s discontinued operations:

(In millions)	First Quarter 2011 Net Sales	First Quarter 2011 Pretax Income	First Quarter 2011 Net Income	First Quarter 2010 Net Sales	First Quarter 2010 Pretax Income	First Quarter 2010 Net Income
International Household and Body Care businesses	$ 408	$ 58	$ 37	$ 521	$ 65	$ 96

The $31 million tax benefit reported in the first quarter of 2010 was due to a $53 million net tax benefit that is related primarily to the reversal of a tax valuation allowance in the United Kingdom as the corporation anticipates being able to utilize tax loss carryforwards as a result of the anticipated disposition of the household and body care businesses in that country.

Gain on the Sale of Discontinued Operations

A majority of the air care business was sold in July 2010. Using foreign exchange rates on the date of the transaction, the corporation received cash proceeds of $355 million, which represents approximately 85% of the total proceeds expected to be received, and reported an after tax gain on disposition of $89 million. When this business was sold, certain operations were retained, primarily in Spain, until production related to non-air care businesses ceases at the facility. Sara Lee will continue to manufacture air care products for the buyer for a period of approximately 16 months, at which point, the production facility will be sold to the buyer and the final gain on the sale will be recognized. The corporation entered into a customary transitional services agreement with the purchaser of this business to provide for the orderly separation of the business and the orderly transition of various functions and processes. The terms of the agreement apply to specific functions or actions including sales, marketing and supply chain functions as well as certain accounting, payroll and tax processing, information technology services, and other services that will be performed for certain periods of time, which in each case is less than six months. The net amount recorded under the transition services agreement, including the service fee charged by the corporation, is a receivable which has been recorded in Other current assets in the Condensed Consolidated Balance Sheet.

(in millions) 2011	Pretax Gain on Sale	Tax (Charge)	After Tax Gain
Air Care Products	$ 255	$ (166)	$ 89

The tax expense recognized on the sale includes a $77 million charge related to the anticipated repatriation of the cash proceeds received on the disposition of this business.

The following is a summary of the net assets held for sale as of October 2, 2010 and July 3, 2010, which primarily consists of the net assets of the international household and body care businesses.

(In millions)	October 2, 2010	July 3, 2010
Trade accounts receivable	$ 35	$ 48
Inventories	181	188
Other current assets	54	24
Total current assets held for sale	270	260
Property	146	144
Trademarks and other intangibles	203	188
Goodwill	461	496

Other assets	8	4
Assets held for sale	$ 1,088	$ 1,092
Accounts payable	$ 28	$ 27
Accrued expenses and other current liabilities	260	220
Current maturities of long-term debt	3	6
Total current liabilities held for sale	291	253
Long-term debt	3	2
Other liabilities		8
Liabilities held for sale	$ 294	$ 263
Noncontrolling interest	$ 5	$ 5

Table of Contents

The discontinued operations cash flows are summarized in the table below:

(In millions) Increase / (Decrease)	Quarter ended Oct. 2, 2010	Quarter ended Sept. 26, 2010
Cash flow from operating activities	$ 73	$ 68
Cash flow from (used in) investing activities	344	(3)
Cash flow used in financing activities	(417)	(61)
Increase (decrease) in net cash of discontinued operations		4
Cash and cash equivalents at beginning of year		8
Cash and cash equivalents at end of period	$	$ 12

The net cash received from investing activities primarily represents the cash proceeds received on the sale of the air care business. The cash used in financing operations primarily represents the net transfers of cash with the corporate office. The net assets of the discontinued operations includes only the cash noted above as most of the cash of those businesses has been retained as a corporate asset.

5. Debt Issuances and Redemptions

On September 7, 2010, the corporation completed a tender offer for any and all of its 6 1/4 % Notes due September 15, 2011, of which $1.11 billion aggregate principal amount was outstanding. At the time of expiration of the tender offer, $653.3 million of the 6 1/4% notes had been validly tendered. The corporation recognized a $30 million charge associated with the early extinguishment of this debt, which is reported on the Debt extinguishment costs line of the Consolidated Income Statement. On September 8, 2010, the corporation announced that it was redeeming the remaining $456.7 million of aggregate principal outstanding of the 6 1/4% Notes on October 8, 2010. This debt was redeemed subsequent to the end of the first quarter and will result in the recognition of an additional debt extinguishment charge in the second quarter of approximately $25 million.

The company funded a portion of the redemption of the 6 1/4 Notes with the proceeds from the sale of $400 million 2.75% Notes due in September 2015 and $400 million 4.1% Notes due in September 2020. The remaining portion of the redemption of the 6 1/4% Notes in the second quarter of 2011 will be funded by cash on hand and/or the net proceeds from commercial paper issuances.

6. Exit, Disposal and Project Accelerate Activities

As part of its ongoing efforts to improve its operational performance and reduce costs, the corporation initiated Project Accelerate (Accelerate) in 2009, which is a series of global initiatives designed to drive significant savings in the next three years. It is anticipated that the overall cost of the initiatives will include severance costs as well as transition costs associated with transferring services to an outside third party. An important component of Accelerate involves outsourcing pieces of the North American and European Finance (transaction processing) and Global Information Services (applications development and maintenance) groups as well as the company s global indirect procurement activities. In addition to cost savings, this business process outsourcing will help the corporation drive standardization, increase efficiency and provide flexibility. The corporation began implementation of the initiative in North America and Europe in the second quarter of 2009 and plans to complete global implementation within three years.

The company announced a transformation plan in 2005 that involved significant changes in the company s organizational structure, portfolio changes involving the disposition of a significant portion of the corporation s business, and a number of actions to improve operational efficiency. The corporation continues to recognize certain trailing costs related to these transformation actions, including the impact of certain activities that were completed for amounts more favorable than previously estimated.

The corporation also incurs exit, disposition and restructuring charges for initiatives outside of the scope of the projects noted above.

Table of Contents

The nature of the costs incurred under these plans includes the following:

1) Exit Activities, Asset and Business Disposition Actions These amounts primarily relate to:

- Employee termination costs
- Lease exit costs
- Gains or losses on the disposition of assets or asset groupings that do not qualify as discontinued operations

2) Transformation/Accelerate Costs recognized in Cost of sales and Selling, general and administrative expenses primarily relate to:

- Expenses associated with the installation of new information systems
- Costs to retain and relocate employees
- Consulting costs
- Costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative

Transformation/Accelerate costs are recognized in Cost of sales or Selling, general and administrative expenses in the Consolidated Statements of Income as they do not qualify for treatment as an exit activity or asset and business disposition under the accounting rules for exit and disposal activities. However, management believes the disclosure of these transformation/Accelerate related charges provides the reader greater transparency to the total cost of the initiatives.

The following is a summary of the (income) expense associated with new and ongoing actions, which also highlights where the costs are reflected in the Consolidated Statements of Income along with the impact on diluted EPS:

	Quarter ended	
(In millions)	**Oct. 2, 2010**	**Sept. 26, 2009**
Selling, general and administrative expenses:		
Project Accelerate costs	$ 3	$ 5
Net charges for (income from):		
Exit activities	5	13
Decrease in income from continuing operations before income taxes	8	18
Income tax benefit	(3)	(6)
Decrease in income from continuing operations	$ 5	$ 12

Impact on diluted EPS	$ 0.01	$ 0.01

The impact of these actions on the corporation s business segments and unallocated corporate expenses is summarized as follows:

	Quarter ended	
(In millions)	**Oct. 2, 2010**	**Sept. 26, 2009**
North American Retail	$ 1	$ 3
North American Fresh Bakery	1	1
North American Foodservice		
International Beverage	2	2
International Bakery		7
Decrease in operating segment income	4	13
Increase in general corporate expenses	4	5
Total	$ 8	$ 18

Table of Contents

The following discussion provides information concerning the exit, disposal and transformation/Accelerate activities for each year where actions were initiated and material reserves exist.

2011 Actions

During 2011, the corporation approved certain actions related to exit, disposal, and Accelerate activities and recognized charges of $8 million related to these actions. Each of these activities is expected to be completed within a 12-month period after being approved and include the following:

- Recognized a charge to implement a plan to terminate 96 employees, related to European beverage, North American fresh bakery and corporate office operations and provide them with severance benefits in accordance with benefit plans previously communicated to the affected employee group or with local employment laws. Of the 96 targeted employees, 94 employees have not yet been terminated, but are expected to be terminated within the next 12 months.

- Recognized costs associated with the transition of services to an outside third party vendor as part of a business process outsourcing initiative.

The following table summarizes the net charges taken for the exit, disposal and Accelerate activities approved dur