

CAMPBELL SOUP CO
Form 10-Q
March 07, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended
January 28, 2007**

**Commission File Number
1-3822**

**New Jersey
State of Incorporation**

**21-0419870
I.R.S. Employer Identification No.**

**Campbell Place
Camden, New Jersey 08103-1799
Principal Executive Offices
Telephone Number: (856) 342-4800**

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 Securities Exchange Act of 1934).

Yes No

There were 389,998,864 shares of Capital Stock outstanding as of March 1, 2007.

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Certification of Robert A. Schiffner pursuant to Rule 13a-14(a)

Certification of Douglas R. Conant pursuant to 18 U.S.C. Section 1350

Certification of Robert A. Schiffner pursuant to 18 U.S.C. Section 1350

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PART I
ITEM 1. FINANCIAL INFORMATION
CAMPBELL SOUP COMPANY CONSOLIDATED

Statements of Earnings

(unaudited)

(millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	January 28, 2007	January 29, 2006	January 28, 2007	January 29, 2006
Net sales	\$2,252	\$ 2,159	\$4,405	\$ 4,161
Costs and expenses				
Cost of products sold	1,286	1,251	2,522	2,407
Marketing and selling expenses	361	357	677	675
Administrative expenses	155	143	290	268
Research and development expenses	25	24	51	48
Other (income) / expense	(20)	1	(18)	(1)
Total costs and expenses	1,807	1,776	3,522	3,397
Earnings before interest and taxes	445	383	883	764
Interest, net	39	43	80	69
Earnings before taxes	406	340	803	695
Taxes on earnings	122	101	250	170
Earnings from continuing operations	284	239	553	525
Earnings from discontinued operations	1	15	23	31
Net earnings	\$ 285	\$ 254	\$ 576	\$ 556
Per share basic				
Earnings from continuing operations	\$.74	\$.59	\$ 1.42	\$ 1.28
Earnings from discontinued operations		.04	.06	.08
Net earnings	\$.74	\$.62	\$ 1.48	\$ 1.36
Dividends	\$.20	\$.18	\$.40	\$.36
Weighted average shares outstanding basic	384	408	389	409

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Per share assuming dilution

Earnings from continuing operations	\$.72	\$.58	\$ 1.38	\$ 1.27
Earnings from discontinued operations		.04	.06	.07
Net earnings	\$.72	\$.61	\$ 1.44	\$ 1.34
Weighted average shares outstanding assuming dilution	395	414	400	414

See Notes to Consolidated Financial Statements.

The sum of the individual per share amounts does not equal net earnings per share due to rounding.

Table of Contents**CAMPBELL SOUP COMPANY CONSOLIDATED****Balance Sheets**

(unaudited)

(millions, except per share amounts)

	January 28, 2007	July 30, 2006
Current assets		
Cash and cash equivalents	\$ 483	\$ 657
Accounts receivable	747	494
Inventories	730	728
Other current assets	190	133
Current assets of discontinued operations held for sale		100
Total current assets	2,150	2,112
Plant assets, net of depreciation	1,943	1,954
Goodwill	1,772	1,765
Other intangible assets, net of amortization	600	596
Other assets	620	605
Non-current assets of discontinued operations held for sale		838
Total assets	\$ 7,085	\$ 7,870
Current liabilities		
Notes payable	\$ 745	\$ 1,097
Payable to suppliers and others	651	691
Accrued liabilities	727	820
Dividend payable	77	74
Accrued income taxes	299	202
Current liabilities of discontinued operations held for sale		78
Total current liabilities	2,499	2,962
Long-term debt	2,111	2,116
Nonpension postretirement benefits	275	278
Other liabilities, including deferred income taxes of \$479 and \$463	745	721
Non-current liabilities of discontinued operations held for sale		25
Total liabilities	5,630	6,102
Shareowners' equity		
Preferred stock; authorized 40 shares; none issued		
Capital stock, \$.0375 par value; authorized 560 shares; issued 542 shares	20	20
Additional paid-in capital	333	352
Earnings retained in the business	6,960	6,539
Capital stock in treasury, at cost	(5,849)	(5,147)

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Accumulated other comprehensive income / (loss)	(9)	4
Total shareowners' equity	1,455	1,768
Total liabilities and shareowners' equity	\$ 7,085	\$ 7,870

See Notes to Consolidated Financial Statements.

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Table of ContentsCAMPBELL SOUP COMPANY CONSOLIDATEDStatements of Cash Flows(unaudited)
(millions)

	Six Months Ended	
	January 28, 2007	January 29, 2006
Cash flows from operating activities:		
Net earnings	\$ 576	\$ 556
Non-cash charges to net earnings		
Change in accounting method (Note h)		(8)
Stock-based compensation	41	41
Resolution of tax contingency (Note k)		(60)
Depreciation and amortization	132	137
Deferred income taxes	(42)	2
Other, net	38	38
Changes in working capital		
Accounts receivable	(259)	(209)
Inventories	(3)	47
Prepaid assets	(6)	9
Accounts payable and accrued liabilities	48	152
Pension fund contributions	(27)	(41)
Payments of hedging activities related to divested businesses (Note b)	(83)	
Gain on sale of businesses (Note b)	(39)	
Gain on sale of facility	(23)	
Other	(25)	(15)
Net cash provided by operating activities	328	649
Cash flows from investing activities:		
Purchases of plant assets	(121)	(85)
Sales of plant assets	22	1
Sales of businesses, net of cash divested (Note b)	884	
Other, net	8	
Net cash provided by (used in) investing activities	793	(84)
Cash flows from financing activities:		
Long-term repayments	(8)	
Repayments of notes payable	(300)	
Net short-term repayments	(83)	(105)
Dividends paid	(153)	(144)
Treasury stock purchases	(842)	(127)
Treasury stock issuances	81	38
Excess tax benefits on stock-based compensation	11	1

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Net cash used in financing activities	(1,294)	(337)
Effect of exchange rate changes on cash	(1)	(1)
Net change in cash and cash equivalents	(174)	227
Cash and cash equivalents beginning of period	657	40
Cash and cash equivalents end of period	\$ 483	\$ 267

See Notes to Consolidated Financial Statements.

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Table of Contents**CAMPBELL SOUP COMPANY CONSOLIDATED
Statements of Shareowners' Equity**

(unaudited)

(millions, except per share amounts)

	Capital Stock		Additional	Earnings	Accumulated	Total			
	Issued	In Treasury					Paid-in	Retained	Other
	Shares	Amount	Shares	Amount	Capital	Business	Comprehensive	Income	Equity
Balance at July 31, 2005	542	\$ 20	(134)	\$(4,832)	\$ 236	\$6,069	\$(223)		\$ 1,270
Comprehensive income (loss)									
Net earnings						556			556
Foreign currency translation adjustments							3		3
Cash-flow hedges, net of tax							1		1
Minimum pension liability, net of tax							(2)		(2)
Other comprehensive income							2		2
Total comprehensive income									558
Dividends (\$.36 per share)							(148)		(148)
Treasury stock purchased			(4)	(127)					(127)
Treasury stock issued under management incentive and stock option plans			1	(37)	105				68
Balance at January 29, 2006	542	\$ 20	(137)	\$(4,996)	\$ 341	\$6,477	\$(221)		\$ 1,621
Balance at July 30, 2006	542	\$ 20	(140)	\$(5,147)	\$ 352	\$6,539	\$ 4		\$ 1,768
Comprehensive income (loss)									
Net earnings						576			576
Foreign currency translation adjustments							(37)		(37)
Cash-flow hedges, net of tax							7		7
Minimum pension liability, net of tax							17		17
Other comprehensive loss							(13)		(13)
Total comprehensive income									563
Dividends (\$.40 per share)							(155)		(155)
Treasury stock purchased			(22)	(814)	(28)				(842)
Treasury stock issued under management incentive and stock option plans			3	112	9				121

Balance at January 28, 2007	542	\$ 20	(159)	\$(5,849)	\$ 333	\$6,960	\$ (9)	\$ 1,455
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See Notes to Consolidated Financial Statements.

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CAMPBELL SOUP COMPANY CONSOLIDATED
Notes to Consolidated Financial Statements

(unaudited)

(dollars in millions, except per share amounts)

(a) **Basis of Presentation / Accounting Policies**

The financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the indicated periods. All such adjustments are of a normal recurring nature. The accounting policies used in preparing these financial statements are consistent with those applied in the Annual Report on Form 10-K for the year ended July 30, 2006. Certain reclassifications were made to the prior year amounts to conform with the current presentation. The results for the period are not necessarily indicative of the results to be expected for other interim periods or the full year.

(b) **Discontinued Operations**

On August 15, 2006, the company completed the sale of its businesses in the United Kingdom and Ireland for £460, or approximately \$870, pursuant to a Sale and Purchase Agreement dated July 12, 2006. The United Kingdom and Ireland businesses included *Homepride* sauces, *OXO* stock cubes, *Batchelors* soups and *McDonnells* and *Erin* soups. The Sale and Purchase Agreement provides for working capital and other post-closing adjustments. The company has reflected the results of these businesses as discontinued operations in the consolidated statements of earnings for all periods presented. In the first quarter 2007, the company recorded a pre-tax gain of \$36 (\$22 after tax) on the sale of the businesses. In the second quarter 2007, the post-closing adjustments were finalized. Additional proceeds of \$19 were received and an incremental pre-tax gain of \$3 (\$1 after tax) was recorded.

In connection with the sale, the company recorded deferred tax expense of \$56 in the fourth quarter 2006, which was recognized in accordance with Emerging Issues Task Force Issue No. 93-17 Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary That is Accounted for as a Discontinued Operation due to book/tax basis differences of these businesses. In addition, the company recorded \$7 pre-tax (\$5 after tax) of costs associated with the sale, for a total net after-tax cost of \$61 recognized in the fourth quarter 2006.

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Results of discontinued operations were as follows:

	Three Months Ended		Six Months Ended	
	January 28, 2007	January 29, 2006	January 28, 2007	January 29, 2006
Net sales	\$	\$ 122	\$ 16	\$ 230
Earnings from operations before taxes	\$	\$ 20	\$	\$ 40
Pre-tax gain on sale	3		39	
Taxes on earnings operations		5		9
Tax impact of gain on sale	2		16	
Earnings from discontinued operations	\$ 1	\$ 15	\$ 23	\$ 31

The company used approximately \$620 of the net proceeds to repurchase shares. On September 28, 2006, the company entered into accelerated share repurchase agreements with a financial institution to repurchase approximately \$600 of stock. See Note (m) to the Consolidated Financial Statements for additional information.

Upon completion of the sale, the company paid \$83 to settle cross-currency swap contracts and foreign exchange forward contracts which hedged exposures related to the businesses.

(c) Stock-based Compensation

The company provides compensation benefits by issuing stock options, stock appreciation rights, unrestricted stock, restricted stock (including EPS performance restricted stock and total shareowner return (TSR) performance restricted stock) and restricted stock units. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004)

Share-Based Payment (SFAS No. 123R), which requires stock-based compensation to be measured based on the grant-date fair value of the awards and the cost to be recognized over the period during which an employee is required to provide service in exchange for the award. The company adopted the provisions of SFAS No. 123R as of August 1, 2005. SFAS No. 123R was adopted using the modified prospective transition method.

Total pre-tax stock-based compensation recognized in the Statements of Earnings was \$24 and \$27 for the second quarter ended January 28, 2007 and January 29, 2006, respectively. Tax related benefits of \$9 and \$10 were also recognized for the second quarter of 2007 and 2006, respectively. Total pre-tax stock-based compensation recognized in the Statements of Earnings was \$41 for the six months ended January 28, 2007 and January 29, 2006. Tax related benefits of \$15 were also recognized for the six months ended January 28, 2007 and January 29, 2006. Stock-based compensation associated with discontinued operations was not material. Cash received from the exercise of stock options was \$81 and \$38 for the six

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month periods ended January 28, 2007 and January 29, 2006, respectively, and is reflected in cash flows from financing activities in the Consolidated Statements of Cash Flows.

The following table summarizes stock option activity as of January 28, 2007:

(options in thousands)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at July 30, 2006	30,607	\$ 27.77		
Granted				
Exercised	(3,017)	\$ 26.86		
Terminated	(903)	\$ 28.35		
Outstanding at January 28, 2007	26,687	\$ 27.86	5.6	\$ 275
Exercisable at January 28, 2007	23,755	\$ 28.01	5.3	\$ 242

The total intrinsic value of options exercised during the six months ended January 28, 2007 and January 29, 2006 was \$33 and \$6, respectively. As of January 28, 2007, total remaining unearned compensation related to unvested stock options was \$9, which will be amortized over the weighted-average remaining service period of less than 1 year. The company measures the fair value of stock options using the Black-Scholes option pricing model.

The following table summarizes time-lapse restricted stock and EPS performance restricted stock as of January 28, 2007:

(restricted stock in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 30, 2006	3,397	\$ 27.92
Granted	1,227	\$ 35.98
Vested	(645)	\$ 28.94
Forfeited	(112)	\$ 28.99
Nonvested at January 28, 2007	3,867	\$ 30.28

The fair value of time-lapse restricted stock and EPS performance restricted stock is determined based on the number of shares granted and the quoted price of the company's stock at the date of grant. Time-lapse restricted stock granted in fiscal 2004 and 2005 is expensed on a graded-vesting basis. Time-lapse restricted stock granted in fiscal 2006 and 2007 is expensed on a straight-line basis over the vesting period, except for awards issued to retirement-eligible participants, which are expensed on an accelerated basis. EPS restricted stock is expensed on a graded-vesting basis, except for awards issued to retirement-eligible participants, which are expensed on an accelerated basis.

As of January 28, 2007, total remaining unearned compensation related to nonvested time-lapse restricted stock and EPS performance restricted stock was \$60, which will be amortized over the weighted-average remaining service period of 2 years. The fair value of restricted stock vested during the six months ended January 28, 2007 and

January 29, 2006 was \$24 and \$1, respectively.

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The following table summarizes TSR performance restricted stock as of January 28, 2007:

(restricted stock in thousands)	Shares	Weighted-Average Grant-Date Fair Value	
Nonvested at July 30, 2006	1,564	\$	28.73
Granted	1,344	\$	26.31
Vested	(10)	\$	28.73
Forfeited	(73)	\$	28.45
Nonvested at January 28, 2007	2,825	\$	27.59

The fair value of TSR performance restricted stock is estimated at the grant date using a Monte Carlo simulation. Expense is recognized on a straight-line basis over the service period. As of January 28, 2007, total remaining unearned compensation related to TSR performance restricted stock was \$52, which will be amortized over the weighted-average remaining service period of 2.2 years.

(d) Goodwill and Intangible Assets

The following table sets forth balance sheet information for intangible assets, excluding goodwill, subject to amortization and intangible assets not subject to amortization: