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HEINZ H J CO  
Form 10-Q  
December 13, 2001

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 OCTOBER 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

FOR THE SIX MONTHS ENDED OCTOBER 31, 2001 COMMISSION FILE NUMBER 1-3385

H. J. HEINZ COMPANY  
(Exact name of registrant as specified in its charter)

PENNSYLVANIA  
(State or other jurisdiction of  
incorporation or organization)

25-0542520  
(I.R.S. Employer  
Identification No.)

600 GRANT STREET, PITTSBURGH, PENNSYLVANIA  
(Address of Principal Executive Offices)

15219  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (412) 456-5700

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 requirements for the past 90 days. Yes  No

The number of shares of the Registrant's Common Stock, par value \$.25 per share, outstanding as of December 7, 2001 was 350,045,875 shares.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

H. J. HEINZ COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

Second Quarter Ended  
-----  
October 31, 2001      November 1, 2000  
FY 2002                      FY 2001

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	(Unaudited) (In Thousands, Except per Share Amounts)	
Sales.....	\$2,565,161	\$2,296,478
Cost of products sold.....	1,551,603	1,383,126
	-----	-----
Gross profit.....	1,013,558	913,352
Selling, general and administrative expenses.....	612,389	530,965
	-----	-----
Operating income.....	401,169	382,387
Interest income.....	4,269	5,658
Interest expense.....	75,083	82,061
Other expenses, net.....	9,985	16,878
	-----	-----
Income before income taxes.....	320,370	289,106
Provision for income taxes.....	112,129	99,073
	-----	-----
Net income.....	\$ 208,241	\$ 190,033
	=====	=====
Net income per share--diluted.....	\$ 0.59	\$ 0.54
	=====	=====
Average common shares outstanding--diluted.....	352,652	350,575
	=====	=====
Net income per share--basic.....	\$ 0.60	\$ 0.55
	=====	=====
Average common shares outstanding--basic.....	349,516	347,218
	=====	=====
Cash dividends per share.....	\$ 0.4050	\$ 0.3925
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

H. J. HEINZ COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

	Six Months Ended	
	October 31, 2001 FY 2002	November 1, 2000 FY 2001*
	(Unaudited) (In Thousands, Except per Share Amounts)	
Sales.....	\$4,750,640	\$4,467,989
Cost of products sold.....	2,866,619	2,655,702
	-----	-----
Gross profit.....	1,884,021	1,812,287
Selling, general and administrative expenses.....	1,098,698	1,041,359
	-----	-----

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Operating income.....	785,323	770,928
Interest income.....	9,627	11,299
Interest expense.....	150,630	163,120
Other expenses, net.....	11,743	14,713
	-----	-----
Income before income taxes and cumulative effect of accounting change.....	632,577	604,394
Provision for income taxes.....	223,862	209,910
	-----	-----
Income before cumulative effect of accounting change.....	408,715	394,484
Cumulative effect of accounting change.....	--	(16,471)
	-----	-----
Net income.....	\$ 408,715	\$ 378,013
	=====	=====
Net income per share--diluted.....	\$ 1.16	\$ 1.08
	=====	=====
Average common shares outstanding--diluted.....	352,652	350,575
	=====	=====
Net income per share--basic.....	\$ 1.17	1.09
	=====	=====
Average common shares outstanding--basic.....	349,516	347,218
	=====	=====
Cash dividends per share.....	\$ 0.7975	\$ 0.76
	=====	=====

\* Restated, see Note 7.

See Notes to Condensed Consolidated Financial Statements.

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3

H. J. HEINZ COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2001 FY 2002	May 2, 2001* FY 2001
	-----	-----
	(Unaudited)	
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 178,347	\$ 138,849
Short-term investments, at cost which approximates market...	1,893	5,371
Receivables, net.....	1,452,044	1,383,550
Inventories.....	1,718,438	1,407,961
Prepaid expenses and other current assets.....	296,431	181,083
	-----	-----
Total current assets.....	3,647,153	3,116,814
	-----	-----
Property, plant and equipment.....	3,920,610	3,880,780
Less accumulated depreciation.....	1,705,642	1,712,400
	-----	-----
Total property, plant and equipment, net.....	2,214,968	2,168,380
	-----	-----

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Goodwill, net.....	2,655,638	2,077,451
Trademarks, net.....	733,937	567,692
Other intangibles, net.....	122,173	120,749
Other non-current assets.....	1,081,281	984,064
	-----	-----
Total other non-current assets.....	4,593,029	3,749,956
	-----	-----
Total assets.....	\$10,455,150	\$9,035,150
	=====	=====

\*Summarized from audited fiscal year 2001 balance sheet.

See Notes to Condensed Consolidated Financial Statements.

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4

H. J. HEINZ COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2001 FY 2002	May 2, 2001* FY 2001
	-----	-----
	(Unaudited)	
	(Thousands of Dollars)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt.....	\$ 213,312	\$1,555,869
Portion of long-term debt due within one year.....	312,925	314,965
Accounts payable.....	1,019,407	962,497
Salaries and wages.....	53,531	54,036
Accrued marketing.....	143,380	146,138
Accrued restructuring costs.....	87,838	134,550
Other accrued liabilities.....	507,899	388,582
Income taxes.....	143,405	98,460
	-----	-----
Total current liabilities.....	2,481,697	3,655,097
	-----	-----
Long-term debt.....	5,115,456	3,014,853
Deferred income taxes.....	272,789	253,690
Non-pension postretirement benefits.....	208,016	207,104
Other liabilities and minority interest.....	853,641	530,679
	-----	-----
Total long-term debt, other liabilities and minority interest.....	6,449,902	4,006,326
	-----	-----
Shareholders' Equity:		
Capital stock.....	107,890	107,900
Additional capital.....	342,830	331,633
Retained earnings.....	4,827,146	4,697,213
	-----	-----
	5,277,866	5,136,746

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Less:

Treasury stock at cost (81,071,016 shares at October 31, 2001 and 82,147,565 shares at May 2, 2001).....	2,915,591	2,922,630
Unearned compensation relating to the ESOP.....	1,724	3,101
Accumulated other comprehensive loss.....	837,000	837,288
	-----	-----
Total shareholders' equity.....	1,523,551	1,373,727
	-----	-----
Total liabilities and shareholders' equity.....	\$10,455,150	\$9,035,150
	=====	=====

\*Summarized from audited fiscal year 2001 balance sheet.

See Notes to Condensed Consolidated Financial Statements.

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5

H. J. HEINZ COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	October 31, 2001	November 1, 2000
	FY 2002	FY 2001
	-----	
	(Unaudited)	
	(Thousands of Dollars)	
	-----	
Cash provided by (used for) Operating Activities.....	\$ 197,923	\$ (1,798)
	-----	-----
Cash Flows from Investing Activities:		
Capital expenditures.....	(86,605)	(170,852)
Acquisitions, net of cash acquired.....	(805,538)	(126,502)
Proceeds from divestitures.....	31,889	85,508
Purchases of short-term investments.....	(1,731)	(876,567)
Sales and maturities of short-term investments.....	11	858,458
Investment in The Hain Celestial Group, Inc.....	--	(79,743)
Other items, net.....	(8,534)	(10,606)
	-----	-----
Cash used for investing activities.....	(870,508)	(320,304)
	-----	-----
Cash Flows from Financing Activities:		
Payments on long-term debt.....	(32,182)	(19,087)
(Payments on) proceeds from commercial paper and short-term borrowings, net.....	(88,032)	688,909
Proceeds from long-term debt.....	768,307	915
Proceeds from preferred stock of subsidiary.....	325,000	--
Dividends.....	(278,782)	(263,779)
Purchases of treasury stock.....	(45,365)	(90,110)
Exercise of stock options.....	46,441	31,535
Other items, net.....	10,284	9,204
	-----	-----
Cash provided by financing activities.....	705,671	357,587
	-----	-----
Effect of exchange rate changes on cash and cash		

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equivalents.....	6,412	(8,835)
	-----	-----
Net increase in cash and cash equivalents.....	39,498	26,650
Cash and cash equivalents at beginning of year.....	138,849	137,617
	-----	-----
Cash and cash equivalents at end of period.....	\$ 178,347	\$ 164,267
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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6

H. J. HEINZ COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

- (1) The Management's Discussion and Analysis of Financial Condition and Results of Operations which follows these notes contains additional information on the results of operations and the financial position of the company. Those comments should be read in conjunction with these notes. The company's Annual Report to Shareholders for the fiscal year ended May 2, 2001 includes additional information about the company, its operations, and its financial position, and should be read in conjunction with this quarterly report on Form 10-Q.
- (2) The results for the interim periods are not necessarily indicative of the results to be expected for the full fiscal year due to the seasonal nature of the company's business. Certain prior year amounts have been reclassified in order to conform with the Fiscal 2002 presentation.
- (3) In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair statement of the results of operations of these interim periods, have been included.
- (4) INVENTORIES  
The composition of inventories at the balance sheet dates was as follows:

	October 31, 2001	May 2, 2001
	-----	-----
	(Thousands of Dollars)	
Finished goods and work-in-process.....	\$1,304,539	\$1,095,954
Packaging material and ingredients.....	413,899	312,007
	-----	-----
	\$1,718,438	\$1,407,961
	=====	=====

- (5) RESTRUCTURING  
In the fourth quarter of Fiscal 2001, the company announced a restructuring initiative named "Streamline". This initiative includes a worldwide organizational restructuring aimed at reducing overhead costs, the closure of the company's tuna operations in Puerto Rico, the consolidation of the company's North American canned pet food production to Bloomsburg, Pennsylvania (which resulted in ceasing canned pet food

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production at the company's Terminal Island, California facility), and the divestiture of the company's U.S. fleet of fishing boats and related equipment. For more information regarding Streamline, refer to the company's Annual Report to Shareholders for the fiscal year ended May 2, 2001.

The major components of the restructuring charges and implementation costs and the remaining accrual balances as of October 31, 2001 were as follows:

(Dollars in millions)	Non-Cash Asset Write-Downs	Employee Termination and Severance Costs	Accrued Exit Costs	Impleme Cos
Restructuring and implementation costs--Fiscal 2001.....	\$ 110.5	\$110.3	\$ 55.4	\$ 2
Amounts utilized--Fiscal 2001.....	(110.5)	(39.5)	(4.7)	(2)
Accrued restructuring costs-- May 2, 2001.....	--	70.8	50.7	
Restructuring and implementation costs--Fiscal 2002.....	--	5.7	--	1
Amounts utilized--Fiscal 2002.....	--	(39.9)	(8.6)	(1)
Accrued restructuring costs--October 31, 2001.....	\$ --	\$ 36.6	\$ 42.1	\$

7

During the first six months of Fiscal 2002, the company recognized restructuring charges and implementation costs totaling \$16.1 million pretax (\$0.04 per share). [Note: All earnings per share amounts included in the Notes to Condensed Consolidated Financial Statements are presented on an after-tax diluted basis, unless otherwise noted.] Pretax charges of \$8.7 million were classified as cost of products sold and \$7.4 million as selling, general and administrative expenses ("SG&A"). Implementation costs (\$10.4 million pretax) were primarily cost premiums related to production transfers, consulting costs and relocation costs.

During the first six months of Fiscal 2002, the company utilized \$48.5 million of severance and exit cost accruals, principally for the closure of the company's tuna operations in Puerto Rico, ceasing canned pet food production in its Terminal Island, California facility and its global overhead reduction plan, primarily in Europe and North America.

(6) ACQUISITIONS

During the second quarter of Fiscal 2002, the company acquired Anchor Food Products branded retail business which includes the retail licensing rights to the T.G.I. Friday's brand of frozen snacks and appetizers and the Poppers brand of retail appetizer lines. Also during the second quarter of Fiscal 2002, the Company completed the acquisition of Delimex Holdings, Inc., a leading maker of frozen Mexican food products. Delimex is a leading U.S. producer of frozen taquitos, tightly rolled fried corn and flour tortillas with fillings such as beef, chicken or cheese. Delimex also makes quesadillas, tamales and rice bowls.

During the first quarter of Fiscal 2002, the company completed the

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acquisition of Borden Food Corporation's pasta sauce, dry bouillon and soup business. Under this transaction, the company acquired such brands as Classico pasta sauces, Aunt Millie's pasta sauce, Mrs. Grass Recipe soups and Wyler's bouillons and soups. The company also made a smaller acquisition.

The above acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition dates. Final allocations of the purchase prices are not expected to differ significantly from the preliminary allocations. Operating results of the businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward.

Pro forma results of the company, assuming all of the acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

(7) RECENTLY ADOPTED ACCOUNTING STANDARDS

In Fiscal 2001, the company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". Under the new accounting method, adopted retroactive to May 4, 2000, the company recognizes revenue upon the passage of title, ownership and risk of loss to the customer. The cumulative effect adjustment of \$16.5 million in net income as of May 4, 2000 was recognized during the first quarter of Fiscal 2001. The Fiscal 2001 first six month amounts have been restated for the effect of the change in accounting for revenue recognition. Amounts originally reported were as follows: Sales, \$4.45 billion; Gross profit, \$1.81 billion; Net income, \$390.7 million; Net income per share - diluted, \$1.11; Net income per share - basic, \$1.13.

(8) RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2000, the FASB Emerging Issues Task Force (the "EITF") issued new guidelines entitled "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products". In addition, during May 2000, the EITF issued new guidelines entitled "Accounting for Certain Sales Incentives". Both of these issues provide guidance primarily on income statement classification of consideration from a vendor to a purchaser of the vendor's products, including both customers and consumers. Generally,

8

cash consideration is to be classified as a reduction of revenue, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration.

In the fourth quarter of Fiscal 2002, the company will reclassify promotional payments to its customers and the cost of consumer coupons and other cash redemption offers from SG&A to net sales. SG&A would be correspondingly reduced such that net earnings would not be affected. The company is currently assessing the impact both issues will have on net sales.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives should not be amortized but should be tested for impairment at least annually, and

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they provide guidelines for new disclosure requirements. These standards outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. The provisions of SFAS Nos. 141 and 142 apply to all business combinations after June 30, 2001. The provisions of SFAS No. 142 for existing goodwill and other intangible assets are required to be implemented in the first quarter of Fiscal 2003. The company is currently evaluating the impact of these standards on the consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 clarifies and revises existing guidance on accounting for impairment of plant, property, and equipment, amortized intangibles, and other long-lived assets not specifically addressed in other accounting literature. This standard will be effective for the company beginning in Fiscal 2003. The company does not expect that the adoption of this standard will have a significant impact on the consolidated financial statements.

### (9) SEGMENTS

Descriptions of the company's reportable segments are as follows:

Heinz North America--This segment markets ketchup, condiments, sauces, soups, pasta meals and infant foods to the grocery and foodservice channels and includes the Canadian business.

U.S. Pet Products and Seafood--This segment markets dry and canned pet food, pet snacks, tuna and other seafood.

U.S. Frozen--This segment markets frozen potatoes, entrees, snacks and appetizers.

Europe--This segment includes the company's operations in Europe and sells products in all of the company's core categories.

Asia/Pacific--This segment includes the company's operations in New Zealand, Australia, Japan, China, South Korea, Indonesia, Thailand and India. This segment's operations include products in all of the company's core categories.

Other Operating Entities--This segment includes the company's operations in Africa, Venezuela and other areas which sell products in all of the company's core categories.

The company's management evaluates performance based on several factors including net sales and the use of capital resources; however, the primary measurement focus is operating income excluding unusual costs and gains. Intersegment sales are accounted for at current market values. Items below the operating income line of the Consolidated Statements of Income are not presented by segment, because they are not the primary measure of segment profitability reviewed by the company's management.

Prior year quarterly segment information has been revised to conform with current quarter presentation.

The following table presents information about the company's reportable segments:

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	Second Quarter Ended		Six Month
	October 31, 2001 FY 2002	November 1, 2000 FY 2001	October 31, 2001 FY 2002
	(Thousands of Dollars)		
Net external sales:			
Heinz North America.....	\$ 704,656	\$ 659,576	\$1,279,558
U.S. Pet Products and Seafood.....	394,227	379,755	739,693
U.S. Frozen.....	342,507	288,596	581,008
	-----	-----	-----
North America Totals.....	1,441,390	1,327,927	2,600,259
Europe.....	750,622	623,211	1,437,479
Asia/Pacific.....	262,219	261,724	507,038
Other Operating Entities.....	110,930	83,616	205,864
	-----	-----	-----
Consolidated Totals.....	\$2,565,161	\$2,296,478	\$4,750,640
	=====	=====	=====
Intersegment sales:			
Heinz North America.....	\$ 14,529	\$ 9,787	\$ 21,860
U.S. Pet Products and Seafood.....	2,761	6,400	7,574
U.S. Frozen.....	2,951	3,418	5,152
Europe.....	1,042	1,422	2,416
Asia/Pacific.....	937	568	1,229
Other Operating Entities.....	17	1,021	17
Non-Operating (a).....	(22,237)	(22,616)	(38,248)
	-----	-----	-----
Consolidated Totals.....	\$ --	\$ --	\$ --
	=====	=====	=====
Operating income (loss):			
Heinz North America.....	\$ 165,313	\$ 156,330	\$ 283,784
U.S. Pet Products and Seafood.....	46,458	35,245	103,999
U.S. Frozen.....	61,092	59,640	105,328
	-----	-----	-----
North America Totals.....	272,863	251,215	493,111
Europe.....	119,431	107,244	270,002
Asia/Pacific.....	24,815	22,713	50,951
Other Operating Entities.....	14,977	18,920	26,910
Non-Operating (a).....	(30,917)	(17,705)	(55,651)
	-----	-----	-----
Consolidated Totals.....	\$ 401,169	\$ 382,387	\$ 785,323
	=====	=====	=====
Operating income (loss) excluding special items (b):			
Heinz North America.....	\$ 165,313	\$ 169,193	\$ 288,658
U.S. Pet Products and Seafood.....	46,458	69,871	111,794
U.S. Frozen.....	61,092	62,905	105,328
	-----	-----	-----
North America Totals.....	272,863	301,969	505,780
Europe.....	119,431	124,368	271,717
Asia/Pacific.....	24,815	39,987	51,549
Other Operating Entities.....	14,977	7,857	26,910
Non-Operating (a).....	(30,917)	(14,684)	(54,458)
	-----	-----	-----
Consolidated Totals.....	\$ 401,169	\$ 459,497	\$ 801,498
	=====	=====	=====

\*Restated, see Note 7.

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- (a) Includes corporate overhead, intercompany eliminations and charges not directly attributable to operating segments.
- (b) Second Quarter ended November 1, 2000 - Excludes implementation costs of Operation Excel as follows: Heinz North America \$12.9 million, U.S. Pet Products and Seafood \$34.6 million, U.S. Frozen \$3.3 million, Europe \$17.1 million, Asia/Pacific \$17.3 million, Other Operating Entities (\$11.1) million and Non-Operating \$3.0 million.

Six Months ended October 31, 2001 - Excludes implementation and restructuring costs of Streamline as follows: Heinz North America \$4.9 million, U.S. Pet Products and Seafood \$7.8 million, Europe \$1.7 million, Asia/Pacific \$0.6 million and Non-Operating \$1.2 million.

10

Six Months ended November 1, 2000 - Excludes implementation costs of Operation Excel as follows: Heinz North America \$25.8 million, U.S. Pet Products and Seafood \$44.7 million, U.S. Frozen \$8.7 million, Europe \$38.0 million, Asia/Pacific \$23.3 million, Other Operating Entities (\$11.1) million and Non-Operating \$4.0 million.

- (10) On May 3, 2001, the company reorganized its U.S. corporate structure by consolidating its U.S. business into two major entities: H. J. Heinz Finance Company (HFC) manages treasury functions and H. J. Heinz Company, L.P. (Heinz LP) owns or leases the operating assets and manages the business. HFC assumed primary liability for payment of the company's outstanding senior unsecured debt and accrued interest by becoming a co-obligor with the company. HFC's financial statements for the six months ended October 31, 2001 are attached as Exhibit 99.

On July 6, 2001, HFC raised \$325 million via the issuance of Voting Cumulative Preferred Stock, Series A with a liquidation preference of \$100,000 per share. The Series A Preferred shares are entitled to receive quarterly dividends at a rate of 6.226% per annum and are required to be redeemed for cash on July 15, 2008. In addition, HFC issued \$750 million of 6.625% Guaranteed Notes due July 15, 2011 which are guaranteed by the company. The proceeds were used for general corporate purposes, including retiring commercial paper borrowings, financing acquisitions and ongoing operations.

On September 6, 2001, the company, HFC and a group of domestic and international banks entered into a \$1.50 billion credit agreement which expires in September 2006 and an \$800 million credit agreement which expires in September 2002. These credit agreements, which support the company's commercial paper programs, replaced the \$2.30 billion credit agreement which expired on September 6, 2001. As of October 31, 2001, \$1.25 billion of domestic commercial paper was outstanding and classified as long-term debt due to the long-term nature of the supporting credit agreement. As of May 2, 2001, the company had \$1.34 billion of domestic commercial paper outstanding and classified as short-term debt.

- (11) DIVIDENDS

On September 17, 2001, the company's Board of Directors raised the quarterly dividend on the company's common stock to \$0.4050 per share from \$0.3925 per share, for an indicated annual rate of \$1.62 per share.

11

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(12) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share in accordance with the provisions of SFAS No. 128.

	Second Quarter Ended		Six Months
	October 31, 2001 FY 2002	November 1, 2000 FY 2001	October 31, 2001 FY 2002
	(In Thousands, Except per Share Amounts)		
Income before cumulative effect of accounting change.....	\$208,241	\$190,033	\$408,715
Preferred dividends.....	5	6	10
Income applicable to common stock before effect of accounting change.....	208,236	190,027	408,705
Cumulative effect of accounting change.....	--	--	--
Net income applicable to common stock.....	\$208,236	\$190,027	\$408,705
Average common shares outstanding--basic.....	349,516	347,218	349,516
Effect of dilutive securities:			
Convertible preferred stock...	166	181	166
Stock options.....	2,970	3,176	2,970
Average common shares outstanding--diluted.....	352,652	350,575	352,652
Income per share before cumulative effect of accounting change--basic.....	\$ 0.60	\$ 0.55	\$ 1.17
Net income per share--basic.....	\$ 0.60	\$ 0.55	\$ 1.17
Income per share before cumulative effect of accounting change--diluted.....	\$ 0.59	\$ 0.54	\$ 1.16
Net income per share--diluted...	\$ 0.59	\$ 0.54	\$ 1.16

(13) COMPREHENSIVE INCOME

	Second Quarter Ended		Six Months
	October 31, 2001 FY 2002	November 1, 2000 FY 2001	October 31, 2001 FY 2002
	(Thousands of Dollars)		
Net income.....	\$208,241	\$190,033	\$408,715
Other comprehensive income (loss):			
Foreign currency translation			

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adjustment.....	8,657	(131,367)	(374)
Minimum pension liability			
adjustment.....	1,018	1,503	1,158
Deferred gains/(losses) on derivatives:			
Net change from periodic revaluations.....	(1,056)	--	(737)
Net amount reclassified to earnings.....	(2)	--	241
	-----	-----	-----
Comprehensive income.....	\$216,858	\$ 60,169	\$409,003
	=====	=====	=====

(14) FINANCIAL INSTRUMENTS

The company operates internationally, with manufacturing and sales facilities in various locations around the world, and utilizes certain financial instruments to manage its foreign currency, commodity price and interest rate exposures.

FOREIGN CURRENCY HEDGING: The company uses forward contracts and currency swaps to mitigate its foreign currency exchange rate exposure due to anticipated purchases of raw materials and sales of finished goods, and future settlement of foreign currency denominated assets and liabilities. Hedges of anticipated transactions are designated as cash flow hedges,

12

and consequently, the effective portion of unrealized gains and losses is deferred as a component of accumulated other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings.

The company uses certain foreign currency debt instruments as net investment hedges of foreign operations. During the six months ended October 31, 2001, losses of \$1.3 million, net of income taxes of \$0.8 million, which represented effective hedges of net investments, were reported as a component of accumulated other comprehensive loss within unrealized translation adjustment.

COMMODITY PRICE HEDGING: The company uses commodity futures and options in order to reduce price risk associated with anticipated purchases of raw materials such as corn, soybean oil and soybean meal. Commodity price risk arises due to factors such as weather conditions, government regulations, economic climate and other unforeseen circumstances. Hedges of anticipated commodity purchases which meet the criteria for hedge accounting are designated as cash flow hedges. When using a commodity option as a hedging instrument, the company excludes the time value of the option from the assessment of hedge effectiveness.

INTEREST RATE HEDGING: The company uses interest rate swaps to manage interest rate exposure. These derivatives are designated as cash flow hedges or fair value hedges depending on the nature of the particular risk being hedged.

During Fiscal 2002, the company entered into interest rate swap agreements to convert the interest rate exposure on certain of the company's existing long-term debt from fixed to floating. The weighted average fixed rate of the associated debt is 6.433%. The aggregate notional amount of these swaps is \$1.3 billion and their average duration is 12 years.

HEDGE INEFFECTIVENESS: During the six months ended October 31, 2001, hedge

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ineffectiveness related to cash flow hedges was a net loss of \$0.2 million, which is reported in the consolidated statements of income as other expenses.

DEFERRED HEDGING GAINS AND LOSSES: As of October 31, 2001, the company is hedging forecasted transactions for periods not exceeding 18 months. During the next 12 months, the company expects \$0.6 million of net deferred loss reported in accumulated other comprehensive loss to be reclassified to earnings.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### STREAMLINE

In the fourth quarter of Fiscal 2001, the company announced a restructuring initiative named "Streamline". This initiative includes a worldwide organizational restructuring aimed at reducing overhead costs, the closure of the company's tuna operations in Puerto Rico, the consolidation of the company's North American canned pet food production to Bloomsburg, Pennsylvania (which resulted in ceasing canned pet food production at the company's Terminal Island, California facility), and the divestiture of the company's U.S. fleet of fishing boats and related equipment. For more information regarding Streamline, please refer to the company's Annual Report to Shareholders for the fiscal year ended May 2, 2001.

During the first quarter of Fiscal 2002, the company recognized restructuring charges and implementation costs totaling \$16.1 million pretax (\$0.04 per share). [Note: All earnings per share amounts included in Management's Discussion and Analysis are presented on an after-tax diluted basis]. Pretax charges of \$8.7 million were classified as cost of products sold and \$7.4 million as selling, general and administrative expenses ("SG&A"). Implementation costs (\$10.4 million pretax) were recognized as incurred and consisted of incremental costs directly related to the

13

implementation of the Streamline initiative. These include cost premiums related to production transfers, consulting costs and relocation costs.

In Fiscal 2001, the company completed the closure of its tuna operations in Puerto Rico, ceased production of canned pet food in the company's Terminal Island, California facility and sold its U.S. fleet of fishing boats and related equipment. In addition, the company is continuing its implementation of its global overhead reduction plan. To date, these actions have resulted in a net reduction of the company's workforce of approximately 2,100 employees.

#### THREE MONTHS ENDED OCTOBER 31, 2001 AND NOVEMBER 1, 2000

#### RESULTS OF OPERATIONS

For the three months ended October 31, 2001, sales increased \$268.7 million, or 11.7%, to \$2,565.2 million from \$2,296.5 million last year. Sales were favorably impacted by acquisitions (10.4%), higher pricing (3.0%) and higher volumes (0.9%) and unfavorably impacted by foreign exchange translation rates (0.5%) and divestitures (2.1%).

The favorable impact of acquisitions is primarily related to Classico and Aunt Millie's pasta sauce, Mrs. Grass Recipe soups and Wyler's bouillions and soups in the North America segment; Delimex frozen Mexican foods, Anchor's Poppers retail frozen appetizers and licensing rights to the T.G.I. Friday's

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brand of frozen snacks and appetizers in the U.S. Frozen Segment; and the Honig brands of soups, sauces and pasta meals, HAK brand of vegetables packed in glass and KDR brand of sport drinks, juices, spreads and sprinkles in the Europe segment.

Sales of the Heinz North America segment increased \$45.1 million, or 6.8%. Acquisitions, net of divestitures, increased sales 11.2%. Lower pricing decreased sales 2.0%, due mainly to foodservice partially offset by a price increase in soup. Sales volume decreased 1.7%, mainly due to decreases in foodservice ketchup and broth partially offset by volume increases in soup and infant feeding. The weaker Canadian dollar decreased sales 0.6%.

Sales of the U.S. Pet Products and Seafood segment increased \$14.5 million, or 3.8%. Sales volume increased 4.6% primarily in pet snacks and tuna partially offset by volume decreases in dry and canned dog food. Lower pricing decreased sales 0.1%, primarily in pet snacks, partially offset by higher pricing in tuna. Divestitures decreased sales 0.8%.

U.S. Frozen's sales increased \$53.9 million, or 18.7%. Acquisitions increased sales 20.6%. Sales volume increased 3.8% due primarily to Boston Market HomeStyle Meals, SmartOnes frozen entrees and Bagel Bites snacks partially offset by volume decreases in frozen potatoes. Higher pricing increased sales 3.0%, primarily in SmartOnes frozen entrees, and Bagel Bites snacks. Divestitures reduced sales by 8.7% due to the sale of Budget Gourmet.

Heinz Europe's sales increased \$127.4 million, or 20.4%. Acquisitions increased sales 14.5%. Higher pricing increased sales 5.3%, primarily due to higher pricing in seafood, infant feeding, frozen entrees, beans and ketchup. Volume decreased slightly by 0.2%, driven primarily by frozen entrees and tuna partially offset by volume increases in ketchup, frozen pizza, beans and salmon. Favorable foreign exchange translation rates increased sales by 0.8%.

Sales in Asia/Pacific increased \$0.5 million, or 0.2%. Higher pricing increased sales 3.4%, primarily due to higher pricing in sauces, infant feeding and juices. Sales volume increased 1.7% due primarily to frozen vegetables, infant feeding and poultry partially offset by volume decreases in frozen potatoes, soups and foodservice business. Unfavorable exchange rates reduced sales by 4.9%.

Sales for Other Operating Entities increased \$27.3 million, or 32.7%. Favorable pricing increased sales 37.9%, primarily in highly inflationary countries. Sales volume increased 0.6%,

14

primarily in infant feeding and cooking oils. Other items net reduced sales by 5.8% mainly due to the divestitures of the South African frozen and pet food businesses.

Last year's second quarter was negatively impacted by a number of special items which net to \$82.7 million pretax (\$0.15 per share). The following table provides a comparison of the company's reported results and the results excluding special items for the second quarter of Fiscal 2001.

Second Quarter Ended November 1, 2000

Net Sales	Gross Profit	Operating Income	Net Income	Per Share
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(Dollars in Millions, Except per Share Amounts)

Reported results.....	\$2,296.5	\$913.4	\$382.4	\$190.0	\$ 0.54
Operation Excel restructuring.....	--	33.5	33.5	20.8	0.06
Operation Excel implementation					
costs.....	--	35.5	77.3	53.3	0.15
Operation Excel reversals.....	--	(21.4)	(33.8)	(25.9)	(0.07)
Equity Loss on Investment in the					
Hain Celestial Group.....	--	--	--	3.5	0.01
	-----	-----	-----	-----	-----
Results excluding special items.....	\$2,296.5	\$961.0	\$459.5	\$241.7	\$ 0.69
	=====	=====	=====	=====	=====

(Note: Totals may not add due to rounding.)

Gross profit increased \$100.2 million, or 11.0%, to \$1,013.6 million from \$913.4 million and the gross profit margin decreased to 39.5% from 39.8%. Excluding the Fiscal 2001 special items noted above, gross profit increased \$52.5 million, or 5.5%, to \$1,013.6 million from \$961.0 million and the gross profit margin decreased to 39.5% from 41.8%. Gross profit for the Heinz North America segment increased \$16.1 million, or 5.7% due primarily to acquisitions offset by lower pricing and the decline in the foodservice business. The U.S. Pet Products and Seafood segment's gross profit decreased \$24.0 million, or 15.9%, primarily due to price decreases in pet food and pet snacks, increased fish, meat and manufacturing costs, increased ingredient costs as a result of reformulating recipes to improve palatability and a shift to less profitable larger size products. U.S. Frozen's gross profit increased \$18.2 million or 13.2%, due primarily to acquisitions and increased pricing. Europe's gross profit increased \$50.0 million, or 19.2%, due primarily to increased pricing and acquisitions. The Asia/Pacific segment's gross profit decreased \$12.7 million, or 12.4%, due primarily to unfavorable foreign exchange rates and poor factory operations in connection with the movement of manufacturing to New Zealand from Australia and Japan partially offset by increased pricing. New Zealand's factories are experiencing inefficiencies as a result of over 60% of the products being produced in a different factory or line compared to the prior year. Gross profit in the Other Operating Entities segment increased \$3.9 million, or 15.9%, due primarily to favorable pricing.

Selling, general and administrative expenses ("SG&A") increased \$81.4 million, or 15.3%, to \$612.4 million from \$531.0 million, and increased as a percentage of sales to 23.9% from 23.1%. Excluding the Fiscal 2001 special items noted above, SG&A increased \$110.9 million, or 22.1%, to \$612.4 million from \$501.5 million and increased as a percentage of sales to 23.9% from 21.8%. This increase is primarily attributable to acquisitions, increased promotional spending in North America and Europe and increased selling and distribution cost.

Operating income increased \$18.8 million, or 4.9%, to \$401.2 million from \$382.4 million, and decreased as a percentage of sales to 15.6% from 16.7%. Excluding the Fiscal 2001 special items noted above, operating income decreased \$58.3 million, or 12.7%, to \$401.2 million from \$459.5 million and decreased as a percentage of sales to 15.6% from 20.0%.

Heinz North America's operating income increased \$9.0 million, or 5.8%, to \$165.3 million from \$156.3 million. Excluding the Fiscal 2001 special items noted above, operating income de-

creased \$3.9 million, or 2.3%, to \$165.3 million from \$169.2 million, due

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primarily to a significant decrease in the foodservice business, partially offset by acquisitions and the soup business.

The U.S. Pet Products and Seafood segment's operating income increased \$11.2 million, or 31.8%, to \$46.5 million from \$35.2 million. Excluding the Fiscal 2001 special items noted above, operating income decreased \$23.4 million, or 33.5%, to \$46.5 million from \$69.9 million, due primarily to the decrease in gross profit.

The U.S. Frozen segment's operating income increased \$1.5 million, or 2.4%, to \$61.1 million from \$59.6 million. Excluding the Fiscal 2001 special items noted above, operating income decreased \$1.8 million, or 2.9%, to \$61.1 million from \$62.9 million as the favorable impact of acquisitions was offset by increased selling and distribution costs, increased marketing costs related to Boston Market HomeStyle Meals, SmartOnes frozen entrees and Bagel Bites and the divestiture of Budget Gourmet.

Europe's operating income increased \$12.2 million, or 11.4%, to \$119.4 million from \$107.2 million. Excluding the Fiscal 2001 special items noted above, operating income decreased \$4.9 million, or 4.0%, to \$119.4 million from \$124.4 million. Europe's decrease is primarily attributable to increased marketing to support key brands across Europe and integration costs associated with recent acquisitions.

Asia/Pacific's operating income increased \$2.1 million, or 9.3%, to \$24.8 million from \$22.7 million. Excluding the Fiscal 2001 special items noted above, operating income decreased \$15.2 million, or 37.9%, to \$24.8 million from \$40.0 million. This decrease is primarily attributable to the unfavorable operating performance brought about by the movement of manufacturing to New Zealand from Australia and Japan. New Zealand's factories are experiencing inefficiencies as a result of over 60% of the products being produced in a different factory or line compared to the prior year. Operations are expected to improve during Fiscal 2003.

Excluding special items, Other Operating Entities' operating income increased \$7.1 million or 90.6% primarily due to higher pricing.

Net interest expense decreased \$5.6 million to \$70.8 million from \$76.4 million last year, driven by lower interest rates partially offset by increased borrowings. Other expense decreased \$6.9 million to \$10.0 million from \$16.9 million last year. Excluding special items, other expense decreased \$1.3 million to \$10.0 million from \$11.3 million.

The effective tax rate for the current quarter was 35.0% compared to 34.3% last year. Excluding the Fiscal 2001 special items noted above, the effective rate was 35.0% for both periods.

Net income in the current quarter was \$208.2 million compared to \$190.0 million last year and diluted earnings per share was \$0.59 in the current quarter versus \$0.54 in the same period last year. Excluding the Fiscal 2001 special items noted above, net income decreased \$33.5 million to \$208.2 million from \$241.7 million last year, and diluted earnings per share decreased 14.4%, to \$0.59 from \$0.69 last year.

SIX MONTHS ENDED OCTOBER 31, 2001 AND NOVEMBER 1, 2000

### RESULTS OF OPERATIONS

For the six months ended October 31, 2001, sales increased \$282.7 million, or 6.3%, to \$4,750.6 million from \$4,468.0 million last year. Sales were favorably impacted by acquisitions (8.3%), higher volumes (0.6%) and higher pricing (1.6%). Sales were unfavorably impacted by foreign exchange translation

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rates (2.2%) and divestitures (2.0%).

Sales of the Heinz North America segment increased \$57.9 million, or 4.7%. Acquisitions, net of divestitures, increased sales 9.1%. Lower pricing decreased sales 2.3%, primarily related to the

16

foodservice business and grocery ketchup. Sales volume decreased 1.5%, primarily in the foodservice business and steak sauces partially offset by volume increases in grocery ketchup, soups and grilling sauces. The weaker Canadian dollar decreased sales 0.5%.

Sales of the U.S. Pet Products and Seafood segment decreased \$14.6 million, or 1.9%. Slightly higher pricing increased sales 0.5%, primarily in tuna, partially offset by lower pricing in pet treats and dry dog food. Sales volume decreased 0.6% primarily in dry and canned dog food partially offset by volume increases in pet treats. Divestitures decreased sales 1.8%.

U.S. Frozen's sales increased \$63.2 million, or 12.2%. Acquisitions increased sales 11.8%. Sales volume increased 7.1% due primarily to Boston Market HomeStyle Meals, SmartOnes frozen entrees and Bagel Bites snacks partially offset by volume decreases in frozen potatoes. Higher pricing increased sales 2.1%, primarily in SmartOnes frozen entrees and frozen potatoes. Divestitures reduced sales by 8.8% due to the sale of Budget Gourmet.

Heinz Europe's sales increased \$174.8 million, or 13.8%. Acquisitions increased sales 13.6%. Higher pricing increased sales 2.9%, primarily due to higher pricing in seafood, infant feeding, beans and soup. Volume increased slightly by 0.1%, driven primarily by grocery ketchup, salad cream and weight control entrees partially offset by volume decreases in infant feeding, soups and tuna. Unfavorable foreign exchange translation rates decreased sales by 2.8%.

Sales in Asia/Pacific decreased \$38.8 million, or 7.1%. Unfavorable exchange rates reduced sales by 9.7%. Higher pricing increased sales 1.6%, primarily due to higher pricing in sauces and juices. Sales volume increased 1.3% due primarily to frozen vegetables, poultry and juices partially offset by volume decreases in sauces and corned beef. Divestitures, net of acquisitions, reduced sales by 0.3%.

Sales for Other Operating Entities increased \$40.0 million, or 24.1%. Favorable pricing increased sales 23.7%, primarily in certain highly inflationary countries. Sales volume increased 3.8%, primarily in infant feeding and cooking oils. Other items net reduced sales by 3.4% mainly due to the divestitures of the South African frozen and pet food businesses.

The current year's results were negatively impacted by additional Streamline restructuring charges and implementation costs totaling \$16.1 million pretax (\$0.04 per share). Pretax charges of \$8.7 million were classified as cost of products sold and \$7.4 million as SG&A. Last year's results include net Operation Excel costs of \$133.5 million pretax or \$0.24 per share. Also included in the prior year results is a pretax loss of \$5.6 million (\$0.01 per share), which represented the company's equity loss associated with Hain Celestial Seasonings.

The following tables provide a comparison of the company's reported results and the results excluding special items for the six months ended October 31, 2001 and November 1, 2000.

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Six Months Ended October 31, 2001

	Net Sales	Gross Profit	Operating Income	Net Income	Per Share
(Dollars in Millions, Except per Share Amounts)					
Reported results.....	\$4,750.6	\$1,884.0	\$785.3	\$408.7	\$1.16
Streamline implementation costs..	--	8.7	10.4	9.4	0.03
Streamline restructuring costs...	--	--	5.7	3.6	0.01
Results excluding special items....	\$4,750.6	\$1,892.8	\$801.5	\$421.7	\$1.20

17

Six Months Ended November 1, 2000

	Net Sales	Gross Profit	Operating Income	Net Income	Per Share
(Dollars in Millions, Except per Share Amounts)					
Reported results (a).....	\$4,468.0	\$1,812.3	\$770.9	\$394.5	\$ 1.13 (b)
Operation Excel restructuring...	--	33.5	33.5	20.8	0.06
Operation Excel implementation costs.....	--	52.8	133.7	90.5	0.26
Operation Excel reversals.....	--	(21.4)	(33.8)	(25.9)	(0.07)
Equity Loss on Investment in the Hain Celestial Group.....	--	--	--	3.5	0.01
Results excluding special items...	\$4,468.0	\$1,877.3	\$904.4	\$483.3	\$ 1.38

(a) Amounts have been restated for the effect of the change in accounting for revenue recognition

(b) Before cumulative effect of accounting change

(Note: Totals may not add due to rounding.)

Gross profit increased \$71.7 million, or 4.0%, to \$1,884.0 million from \$1,812.3 million and the gross profit margin decreased to 39.7% from 40.6%. Excluding the special items noted above, gross profit increased \$15.5 million, or 0.8%, to \$1,892.8 million from \$1,877.3 million and the gross profit margin decreased to 39.8% from 42.0%. Gross profit for the Heinz North America segment decreased \$3.1 million, or 0.6% due primarily to lower pricing and the decline in the foodservice business partially offset by acquisitions. The U.S. Pet Products and Seafood segment's gross profit decreased \$41.0 million, or 13.6%, primarily due to price decreases in pet food and pet snacks, increased fish, meat and manufacturing costs, increased ingredient costs as a result of reformulating recipes to improve palatability and a shift to less profitable larger size products. U.S. Frozen's gross profit increased \$22.3 million or 9.2%, due primarily to increased pricing and acquisitions. Europe's gross profit

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increased \$67.3 million, or 12.4%, due primarily to increased pricing and acquisitions. The Asia/Pacific segment's gross profit decreased \$37.5 million, or 17.5%, due primarily to unfavorable foreign exchange rates and poor factory operations in connection with the movement of manufacturing to New Zealand from Australia and Japan partially offset by increased pricing. New Zealand's factories are experiencing inefficiencies as a result of over 60% of the products being produced in a different factory or line compared to the prior year. Gross profit in the Other Operating Entities segment increased \$6.5 million, or 12.8%, due primarily to favorable pricing.

SG&A increased \$57.3 million, or 5.5%, to \$1,098.7 million from \$1,041.4 million, and decreased as a percentage of sales to 23.1% from 23.3%. Excluding the special items noted above, SG&A increased \$118.4 million, or 12.2%, to \$1,091.3 million from \$972.9 million and increased as a percentage of sales to 23.0% from 21.8%. This increase is primarily attributable to acquisitions, increased promotional spending in North America and Europe and increased selling and distribution costs.

Operating income increased \$14.4 million, or 1.9%, to \$785.3 million from \$770.9 million, and decreased as a percentage of sales to 16.5% from 17.3%. Excluding the special items noted above, operating income decreased \$102.9 million, or 11.4%, to \$801.5 million from \$904.4 million and decreased as a percentage of sales to 16.9% from 20.2%.

Heinz North America's operating income decreased \$14.5 million, or 4.9%, to \$283.8 million from \$298.3 million. Excluding the special items noted above, operating income decreased \$35.4 million, or 10.9%, to \$288.7 million from \$324.0 million, due primarily to the decrease in gross profit and higher selling and distribution costs.

18

The U.S. Pet Products and Seafood segment's operating income increased \$7.8 million, or 8.1%, to \$104.0 million from \$96.2 million. Excluding the special items noted above, operating income decreased \$29.1 million, or 20.7%, to \$111.8 million from \$140.9 million, due primarily to the decrease in gross profit.

The U.S. Frozen segment's operating income increased \$8.1 million, or 8.3%, to \$105.3 million from \$97.3 million. Excluding the special items noted above, operating income decreased \$0.7 million, or 0.6%, to \$105.3 million from \$106.0 million as the favorable impact of acquisitions was offset by increased selling and distribution costs and the divestiture of Budget Gourmet.

Europe's operating income increased \$44.1 million, or 19.5%, to \$270.0 million from \$225.9 million. Excluding the special items noted above, operating income increased \$7.8 million, or 3.0%, to \$271.7 million from \$263.9 million. This increase is primarily attributable to the tuna business in Europe and acquisitions partially offset by increased marketing to support key brands across Europe and acquisition integration costs.

Asia/Pacific's operating income decreased \$13.3 million, or 20.7%, to \$51.0 million from \$64.2 million. Excluding the special items noted above, operating income decreased \$36.0 million, or 41.1%, to \$51.5 million from \$87.6 million. This decrease is primarily attributable to the unfavorable operating performance brought about by the movement of manufacturing to New Zealand from Australia and Japan and the significant realignment of manufacturing facilities. Operations are expected to improve during Fiscal 2003.

Excluding special items, Other Operating Entities' operating income increased \$8.0 million or 42.2% primarily due to higher pricing.

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Net interest expense decreased \$10.8 million to \$141.0 million from \$151.8 million last year, driven by lower interest rates partially offset by increased borrowings. Other expense decreased \$3.0 million to \$11.7 million from \$14.7 million last year. Excluding special items, other expense increased \$2.7 million to \$11.7 million from \$9.1 million.

The effective tax rate for the current year was 35.4% compared to 34.7% last year. Excluding the special items, the effective rate was 35.0% in both years.

Net income for the current six months was \$408.7 million compared to \$378.0 million last year and diluted earnings per share was \$1.16 compared to \$1.08 last year. Excluding the special items noted above and the cumulative effect of the accounting change for revenue recognition in the prior year, net income decreased \$61.6 million to \$421.7 million from \$483.3 million last year, and diluted earnings per share decreased 13.0%, to \$1.20 from \$1.38 last year.

### LIQUIDITY AND FINANCIAL POSITION

Cash provided by operating activities was \$197.9 million compared to cash used for operating activities of \$1.8 million last year. The increase in Fiscal 2002 versus Fiscal 2001 is primarily due to improved working capital performance.

Cash used for investing activities totaled \$870.5 million compared to \$320.3 million last year. Acquisitions in the current period required \$805.5 million, due primarily to the purchase of Borden Food Corporation's pasta and dry bouillon and soup business, Delimex Holdings, Inc. and Anchor Food Products branded retail business which includes the retail licensing rights to the T.G.I. Friday's brand of frozen snacks and appetizers. Acquisitions in the prior period required \$126.5 million, due primarily to the purchase of International DiverseFoods Inc. During the prior year period, the company also invested \$79.7 million in The Hain Celestial Group, Inc. Capital expenditures in the current period required \$86.6 million compared to \$170.9 million last year.

Cash provided by financing activities increased to \$705.7 million from \$357.6 million last year. Proceeds from long-term debt were \$768.3 million compared to \$0.9 million last year. Payments on long-term debt required \$32.2 million this period compared to \$19.1 million last year. Payments on

19

commercial paper and short-term borrowings required \$88.0 million compared to providing \$688.9 million last year. In addition, \$325.0 million was provided during the current period via the issuance of Preferred Stock (see below). Cash provided from stock options exercised totaled \$46.4 million versus \$31.5 million last year. Dividend payments totaled \$278.8 million compared to \$263.8 million for the same period last year. Share repurchases totaled \$45.4 million (1.0 million shares) versus \$90.1 million (2.3 million shares) a year ago.

In the first six months of Fiscal 2002, the cash requirements of Streamline were \$56.7 million, consisting of spending for severance and exit costs (\$46.3 million) and implementation costs (\$10.4 million).

On July 6, 2001, H.J. Heinz Finance Company (HFC) raised \$325.0 million via the issuance of Voting Cumulative Preferred Stock, Series A with liquidation preference of \$100,000 per share. The Series A Preferred shares are entitled to receive quarterly dividends at a rate of 6.226% per annum and are required to be redeemed for cash on July 15, 2008. In addition, HFC issued \$750 million of 6.625% Guaranteed Notes due July 15, 2001. The proceeds were used for general corporate purposes, including retiring commercial paper borrowings and financing acquisitions and ongoing operations.

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On September 6, 2001, the company, HFC and a group of domestic and international banks entered into a \$1.50 billion credit agreement which expires in September 2006 and a \$800 million credit agreement which expires in September 2002. These credit agreements, which support the company's commercial paper programs, replaced the \$2.30 billion credit agreement which expired on September 6, 2001. As of October 31, 2001, \$1.25 billion of domestic commercial paper is classified as long-term debt due to the long-term nature of the supporting credit agreement. As of May 2, 2001, the company had \$1.34 billion of domestic commercial paper outstanding and classified as short-term debt.

The company expects the second half the year to deliver earnings per share consistent with the first half with the third quarter profits slightly lower than the second quarter and an improved fourth quarter as a result of recent acquisitions, new products and cost reduction efforts. The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

### RECENTLY ADOPTED ACCOUNTING STANDARDS

In Fiscal 2001, the company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". Under the new accounting method, adopted retroactive to May 4, 2000, Heinz recognizes revenue upon the passage of title, ownership and risk of loss to the customer. The cumulative effect adjustment of \$66.2 million in revenue (\$16.5 million in net income) as of May 4, 2000, was recognized during the first quarter of Fiscal 2001. The Fiscal 2001 six month amounts have been restated for the effect of the change in accounting for revenue recognition. Amounts originally reported were as follows: Sales, \$4.45 billion; Gross profit, \$1.81 billion; Net income, \$390.7 million; Net income per share - diluted, \$1.11; Net income per share - basic, \$1.13.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2000, the FASB Emerging Issues Task Force (the "EITF") issued new guidelines entitled "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products". In addition, during May 2000, the EITF issued new guidelines entitled "Accounting for Certain Sales Incentives". Both of these issues provide guidance primarily on income statement classification of consideration from a vendor to a purchaser of the vendor's products, including both customers and consumers. Generally, cash consideration is to be classified as a reduction of revenue, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration.

20

In the fourth quarter of Fiscal 2002, the company will reclassify promotional payments to its customers and the cost of consumer coupons and other cash redemption offers from SG&A to net sales. SG&A would be correspondingly reduced such that net earnings would not be affected. The company is currently assessing the impact both issues will have on net sales.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". These standards require that all business combinations be accounted for using the purchase method and that goodwill and intangible assets with indefinite useful lives should not be amortized but should be tested for impairment at least annually, and they provide guidelines for new disclosure requirements. These standards outline the criteria for initial recognition and measurement of intangibles, assignment of assets and liabilities including goodwill to reporting units and goodwill impairment testing. The provisions of SFAS Nos. 141 and 142 apply to all

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business combinations after June 30, 2001. The provisions of SFAS No. 142 for existing goodwill and other intangible assets are required to be implemented in the first quarter of Fiscal 2003. The company is currently evaluating the impact of these standards on the consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 clarifies and revises existing guidance on accounting for impairment of plant, property, and equipment, amortized intangibles, and other long-lived assets not specifically addressed in other accounting literature. This standard will be effective for the company beginning in Fiscal 2003. The company does not expect that the adoption of this standard will have a significant impact on the consolidated financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the company's market risk during the six months ended October 31, 2001. For additional information, refer to pages 41-42 of the company's Annual Report to Shareholders for the fiscal year ended May 2, 2001.

21

## PART II--OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Nothing to report under this item.

### ITEM 2. CHANGES IN SECURITIES

Nothing to report under this item.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report under this item.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Nothing to report under this item.

### ITEM 5. OTHER INFORMATION

See Note 7 to the Condensed Consolidated Financial Statements in Part I--Item 1 of this Quarterly Report on Form 10-Q.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required to be furnished by Item 601 of Regulation S-K are listed below and are filed as part hereof. The company has omitted certain exhibits in accordance with Item 601(b)(4)(iii)(A) of Regulation S-K. The company agrees to furnish such documents to the Commission upon request. Documents not designated as being incorporated herein by reference are filed herewith. The paragraph numbers correspond to the exhibit numbers designated in Item 601 of Regulation S-K.

#### 12. Computation of Ratios of Earnings to Fixed Charges.

99 (i) Condensed consolidated and combined financial statements of H.J. Heinz Finance Company and Subsidiaries for the six months ended October 31, 2001 (ii) Restated condensed consolidated and combined

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financial statements of H.J. Heinz Finance Company and Subsidiaries for the quarterly period ended August 1, 2001 both of which are filed in accordance with Rule 3-10 of Regulation S-X. H.J. Heinz Company is a guarantor of all of H.J. Heinz Finance Company's outstanding debt.

(b) Reports on Form 8-K

A report on Form 8-K was filed with the Securities and Exchange Commission on November 9, 2001 reporting a revised earnings outlook for the second quarter ended October 31, 2001 and the full fiscal year ending May 1, 2002.

22

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H. J. HEINZ COMPANY  
(Registrant)

Date: December 13, 2001

By: /s/ PAUL F. RENNE  
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Paul F. Renne  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: December 13, 2001

By: /s/ BRUNA GAMBINO  
.....

Bruna Gambino  
Corporate Controller  
(Principal Accounting Officer)

23