EMCLAIRE FINANCIAL CORP
Form 8-K
July 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **July 23, 2014**

Emclaire Financial Corp.

(Exact name of registrant as specified in its charter)

Pennsylvania	**001-34527**	**25-1606091**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

612 Main Street, Emlenton, PA	**16373**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(724) 867-2311**

____
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EMCLAIRE FINANCIAL CORP.
CURRENT REPORT ON FORM 8-K

Item 2.02. Results of Operations and Financial Condition.

On July 23, 2014, Emclaire Financial Corp announced its results of operations for the quarter ended June 30, 2014. A copy of the related press release is being filed as Exhibit 99.1 to this Form 8-K and is incorporated herein by reference in its entirety. The information furnished under Item 9.01 of this Current Report on Form 8-K, including Exhibit 99.1, shall not be deemed to be "filed" for purposes of the Securities Exchange Act of 1934, as amended.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

Exhibit Number	Description
99.1	Press Release dated July 23, 2014 issued by Emclaire Financial Corp.

SIGNATURE

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 hereunto duly authorized.

	Emclaire Financial Corp.
	(Registrant)
July 23, 2014	**/s/ WILLIAM C. MARSH**
(Date)	William C. Marsh *Chief Executive Officer* *President*

FONT size="2"> President and 2002 579,000 900,000 -0- -0- 173,082 -0- 47,031 Chief
Operating 2001 504,000 660,000 83,442 188,980 649,400 -0- 10,880
Officer

Alan F. Harris
2003 554,981 840,800 -0- 335,650 195,572 914,000 50,104
Executive Vice
2002 534,615 575,100 -0- -0- 197,051 -0- 32,385
President
2001 515,000 275,000 39,538 210,000 163,545 -0- 10,880
King T. Pouw
2003 472,362 641,700 -0- 839,125 142,480 959,400 48,459
Executive Vice
2002 427,142 519,800 -0- -0- 159,130 -0- 34,086
President
2001 360,075 425,000 30,882 134,520 96,127 -0- 10,880
Jeffrey W. Montie
2003 443,272 572,900 -0- 671,300 63,637 568,600 44,655
Executive Vice
2002 399,315 506,400 -0- -0- 70,700 -0- 30,805
President
2001 354,583 370,800 -0- -0- 71,642 -0- 11,330

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(1) Represents payments to or on behalf of Messrs. Mackay, Harris, and Pouw, primarily under the Company s Expatriate Compensation Program in connection with their relocation and moving expenses.

(2) Messrs. Harris, Pouw, and Montie were awarded 10,000, 25,000, and 20,000 shares, respectively, of restricted stock in September 2003 under the Company s 2001 Long-Term Incentive Plan. These awards are valued at approximately $378,000, $945,000, and $756,000, respectively, based on the closing price of Kellogg Company common stock on December 26, 2003. Additionally, Messrs. Gutierrez, Mackay, Harris, and Pouw were awarded 13,947, 6,892, 7,657, and 4,906 shares, respectively, of restricted stock in February 2001 under the Company s 2001 Long-Term Incentive Plan. These awards are valued at approximately $527,197, $260,518, $289,435, and $185,447, respectively, based on the closing price of Kellogg Company common stock on December 26, 2003.

(3) All the options granted contained an accelerated ownership option feature (AOF), including the AOF options described below. Under the terms of the original option grant, an AOF option is generally received when Company stock is used to pay the exercise price of a stock option and related taxes. The holder of the option receives an AOF option for the number of shares so used. For AOF options, the expiration date is the same as the original option, and the option price is the fair market value of the Company s stock on the date the AOF option is granted. During 2003, 2002 and 2001, respectively, Messrs. Gutierrez, Mackay, Harris, Pouw, and Montie received the following amounts of AOF options, included in the Summary Compensation Table, from their surrender of Kellogg Company stock to exercise an original option: Mr. Gutierrez, 384,782, 306,163, and 222,128; Mr. Mackay, 60,698, 22,282, and 0; Mr. Harris, 99,462, 72,151, and 50,445; Mr. Pouw, 43,980, 31,230, and 21,127; and Mr. Montie, 7,537, 0, and 1,342.

(4) The Long-Term Incentive Payments were payments under a three-year 2001-2003 Executive Performance Plan. Under the Plan, the Committee approved three levels of performance for cumulative cash flow (as defined): threshold, budget, and maximum. No awards were to be paid for performance below threshold. Participants were to receive 100% of their targeted award for performance at budget and 200% of their targeted award for performance at maximum. Payments equal 200% of participants targeted awards, which they earned by achieving the maximum performance level under the Plan.

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(5) The amounts represent Company-paid life insurance premiums, dividends on unvested restricted stock, and Company-matching contributions on behalf of each named individual to the Kellogg Company Salaried and Supplemental Savings and Investment Plans. A limit in the Kellogg Company Supplemental Savings and Investment Plan on the contributions eligible for Company matching contributions was removed effective January 1, 2002.

Employment and Change in Control Agreements

The named executive officers have agreements with the Company which become operative only if a change of control (as defined therein) of the Company occurs. The agreements provide that, during the three-year period after the change of control, the officers are entitled to receive a monthly base salary at least equal to the highest monthly salary earned during the twelve months before the agreements became operative, as well as annual bonuses at least equal to the highest annual bonus received during the three years before the agreements became operative. The agreements also provide for their continued participation in benefit plans during the three-year period, with those plans to generally be no less favorable, in the aggregate, than those in effect during the one hundred twenty day period before the agreements became operative.

In addition, if during the three-year period, any of such executive officers terminates his or her employment for good reason (as defined), or if the Company terminates his or her employment for reasons other than cause or disability, he or she will generally be entitled to receive, within thirty days after termination: (a) any unpaid salary through the date of termination, as well as a pro-rata bonus for the year of termination at target or, if higher, the bonus amount described below (the Bonus Amount); (b) three times the sum of his or her annual base salary and the Bonus Amount; and (c) the actuarial equivalent of the benefit that he or she would have received for three years of additional participation under the Company s retirement plans (Actuarial Equivalent). The bonus amounts used to determine the amounts described in clauses (a) and (b) above are both equal to the higher of (1) the highest annual bonus earned for the three most recent years ended before the agreement became operative and (2) the most recent bonus (if any) earned for a year ended after the agreement became operative. A terminated executive officer would also continue to participate in the Company s welfare benefit plans for three years after termination, would be eligible for continued vesting of his or her equity awards during this three-year period, and would receive outplacement benefits.

In addition, under these agreements, the Company is obligated to pay each such executive officer a gross up payment to make him or her whole for any federal excise taxes on excess parachute payments owed on such severance payments and benefits or any other payments and benefits from the Company.

Under the Kellogg Company Severance Benefit Plan, which was adopted in 2002, regular non-union U.S. employees (with some exceptions) may be eligible to receive designated severance pay benefits, which vary by pay grades and years of service (subject to minimums and maximums), if their employment is terminated for specified reasons, so long as specified conditions are met. The named executive officers (except for the Chief Executive Officer) would generally be entitled to receive two years of base pay and target bonus under this Plan, unless an employment agreement provides for a different amount. Specified medical, dental, and insurance benefits would also be provided (subject to plan provisions, including the payment of premiums) during this payment period. The amount to be provided to the Chief Executive Officer would be determined by the Board of Directors.

Mr. Mackay has an agreement with the Company providing that he will be granted an additional six years of pension service credit if he works through December 31, 2005, with the Company or if, before that date, either the Company terminates him without cause (as defined) or he terminates his employment with the Company for good reason (as defined) after a notice and cure period. The agreement also provides that, if his employment is terminated by the Company for any reason (except for cause) prior to December 31, 2008, he or his estate would generally be entitled to payment for relocation back to Australia and any loss on the sale of one residence. The agreement also provides that if the Company terminates him without cause, or if he terminates his employment for good reason before December 31, 2005, he shall also be entitled to receive the benefits provided under the Kellogg Company Severance Benefit Plan described above. In addition, if his employment is terminated before December 31, 2005, at a time when he is entitled to receive the change in control benefits described above, he would be entitled to the additional six years of pension service credit on December 31, 2005, in addition to the change in control benefits described above, except that the three year time period used for calculating the Actuarial Equivalent under the change in control benefits is to be reduced by the time between the date of termination and December 31, 2005. The agreement also contains two-year non-compete and non-solicitation provisions.

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Mr. Harris has an agreement with the Company providing for an annual base salary of $560,500 per year (subject to standard periodic reviews) and participation in employee benefit plans that are generally made available to employees of Mr. Harris level. It also provides that he will be granted an additional three-and-one-half years of pension service credit if he works through December 31, 2005, with the Company or if, before that date, either the Company terminates him without cause (as defined) or he terminates his employment with the Company for good reason (as defined) after a notice and cure period. The agreement also provides that if the Company terminates him without cause, or if he terminates his employment for good reason before December 31, 2005, he shall also be entitled to receive the benefits provided under the Kellogg Company Severance Benefit Plan described above. The agreement also provides that, if Mr. Harris provides notice during the period between December 1, 2003, and ending April 30, 2004, of his desire to terminate his employment without good reason, Mr. Harris shall work through the earlier of September 30, 2004, or the date he obtains alternative employment, and the Company shall generally pay Mr. Harris salary and benefits through September 30, 2004, pay him a pro-rated bonus at target for 2004 under the Annual Incentive Plan, and, beginning October 1, 2004, the benefits provided under the Kellogg Company Severance Benefit Plan. In addition, if his employment is terminated before December 31, 2005, at a time when he is entitled to receive the change in control benefits described above, he would be entitled to the additional three-and-one-half years of pension service credit on December 31, 2005, in addition to the change in control benefits described above, except that the three year time period used for calculating the Actuarial Equivalent under the change in control benefits is to be reduced by the time between the date of termination and December 31, 2005. The agreement also contains two-year non-compete and non-solicitation provisions.

Option Grants in Last Fiscal Year

The following table provides information regarding stock options granted during 2003 to the persons named in the Summary Compensation Table.

	Individual Grants				
Name	**Number of Securities Underlying Options Granted (#)(1)**	**% of Total Options Granted to Employees In Fiscal Year (%)**	**Exercise Price ($/Share)**	**Expiration Date**	**Grant Date Present Value ($)(3)**
C. M. Gutierrez	460,000	7.8	$ 30.18	2/21/13	$2,185,000
	8,341(2)	0.1	33.385	1/31/10	39,600
	61,496(2)	1.0	33.385	1/31/10	292,100
	135,171(2)	2.3	33.385	2/16/11	642,100
	179,774(2)	3.0	31.485	2/16/11	853,900
A. D. D. Mackay	116,100	2.0	30.18	2/21/13	551,500
	26,982(2)	0.5	33.40	8/1/10	128,200
	3,860(2)	0.1	35.165	8/1/10	18,300
	29,856(2)	0.5	35.165	2/16/11	141,800
A. F. Harris	96,200	1.6	30.18	2/21/13	457,000
	45,035(2)	0.8	32.795	2/16/11	213,900
	51,084(2)	0.9	34.945	2/16/11	242,600
	3,343(2)	0.1	34.945	1/31/10	15,900
K. T. Pouw	98,500	1.7	30.18	2/21/13	467,900
	19,525(2)	0.3	32.825	2/16/11	92,700
	24,455(2)	0.4	34.385	2/16/11	116,200
J. W. Montie	56,100	0.9	30.18	2/21/13	266,500
	7,537(2)	0.1	33.385	1/31/10	35,800

(1) These stock options were granted under the Kellogg Company 2001 Long-Term Incentive Plan (the 2001 Incentive Plan). The options have an exercise price equal to the fair market value of the common stock on the date of grant, generally expire ten years and one day after grant (if non-qualified options), and generally include (a) the right to pay the exercise price in cash or, subject to approval, with shares of stock previously acquired by the optionee; (b) the right to have shares of stock withheld by the Company to pay tax withholding obligations due in connection with the exercise; and (c) the right to receive an AOF option, which is described in

footnote (3) on page 12 of this Proxy Statement. The options generally vest as follows: 50% of the options granted vest one year after the date of grant and 50% vest two years after the date of grant.

(2) These are AOF options.

(3) Grant date present value is determined using the Black-Scholes model. The model makes assumptions about future variables, so the actual value of the options may be greater or less than the values stated in the table. For options granted in 2003, the calculations are based on a weighted average that assumes a dividend yield of 2.70%, volatility of approximately 25.75%, a risk-free rate of return of 1.89%, and an average expected term of three years. Optionees may decide to exercise their options either earlier or later than this assumed period, resulting in different values from those shown in the table. No downward adjustments were made to the resulting grant date option value to account for potential forfeiture of these options.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides information regarding the pretax value realized from the exercise of stock options during 2003 and the value of in-the-money options held at December 27, 2003, by the persons named in the Summary Compensation Table.

			Number of Shares Underlying Unexercised Options at Fiscal Year-End(#)		Value of Unexercised, In-the-Money Options at Fiscal Year-End($)(1)	
Name	**Shares Acquired on Exercise(#)**	**Value Realized($)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
C. M. Gutierrez	418,916	$1,950,358	1,331,713	735,000	$4,711,058	$4,375,575
A. D. D. Mackay	69,263	512,500	305,164	691,500	1,819,532	6,925,823
A. F. Harris	120,394	728,923	456,378	158,650	1,231,410	930,698
K. T. Pouw	49,257	309,314	222,763	162,450	825,223	952,972
J. W. Montie	8,994	82,439	176,770	91,450	1,400,398	539,365

(1) Based on the $37.80 per share closing price of Kellogg Company common stock on December 26, 2003, the last business day in the Company s fiscal year.

Long-Term Incentive Plans-Awards in Last Fiscal Year

The following table provides information regarding performance units granted during 2003 to the persons named in the Summary Compensation Table.

			Estimated Future Payouts Under Non-Stock Price-Based Plans		
Name	**Number of Shares, Units or Maximum Other Rights(#)(1)**	**Performance or Other Period Until Maturation or Payout($)(2)**	**Threshold ($)(3)**	**Target ($)**	**Maximum ($)**
C. M. Gutierrez	1,828,500	3 years	-0-	$1,828,500	$3,657,000
A. D. D. Mackay	600,000	3 years	-0-	600,000	1,200,000
A. F. Harris	425,000	3 years	-0-	425,000	850,000
K. T. Pouw	375,000	3 years	-0-	375,000	750,000
J. W. Montie	250,000	3 years	-0-	250,000	500,000

(1) Awards were made in February 2003 under the 2001 Long-Term Incentive Plan of the Company for the achievement of gross margin improvement targets for a three-year period ending on December 31, 2005. The award of units represents the right to receive shares of the Company s common stock equal to the dollar award valued on the vesting date if the performance objectives are achieved.

(2)

The awards will be earned and vest in February 2006 according to the terms of the Plan and relevant documents. The 2001 Long-Term Incentive Plan contains a change in control provision.

(3) No awards are earned unless the minimum threshold is attained.

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Kellogg Company Retirement Plans

Retirement benefits under the Kellogg Company Salaried Pension Plan (the Pension Plan), a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code (the Code), are payable to salaried employees who have vested upon retirement at age 65 or in reduced amounts upon earlier retirement prior to age 65 in accordance with the Pension Plan. Benefits are based upon credited years of service and average annual compensation (salary and bonus) for the three consecutive years during the last ten years of employment producing the greatest average. Benefits are reduced by a portion of the retiree s Social Security-covered compensation and, for retirees who were participants of a previous profit sharing plan, by certain amounts accrued pursuant to that plan. The Company also maintains a Supplemental Retirement Plan and an Excess Benefit Retirement Plan that provide for payment of benefits to all participants in the Pension Plan equal to the benefits that would have been payable under the Pension Plan but for certain limitations imposed by the Code. Estimated annual benefits payable upon retirement to persons of the specified compensation and years of credited service classifications, as reduced by Social Security benefits (assuming their present levels), are as shown in the following table. Such amounts assume payments in the form of a straight life annuity and include the payment of benefits under the Company s Supplemental Retirement Plan and Excess Benefit Retirement Plan.

At December 27, 2003, the credited years of service under the Pension Plan for the executive officers named in the Summary Compensation Table were as follows: Mr. Gutierrez, 28 years; Mr. Mackay, 12 years; Mr. Harris, 19 years; Mr. Pouw, 25 years; and Mr. Montie, 16 years. The compensation covered by the Pension Plan is equal to the amounts shown in the Summary Compensation Table as Salary and Bonus.

	Years of Service				
Remuneration	10	15	25	35	45
$ 300,000	$ 43,615	$ 65,423	$ 109,038	$ 152,653	$ 197,653
$ 500,000	$ 73,615	$110,423	$ 184,038	$ 257,653	$ 332,653
$ 750,000	$111,115	$166,673	$ 277,788	$ 388,903	$ 501,403
$1,000,000	$148,615	$222,293	$ 371,538	$ 520,153	$ 670,153
$1,500,000	$223,615	$335,423	$ 559,038	$ 782,653	$1,007,653
$2,000,000	$298,615	$447,923	$ 746,538	$1,045,153	$1,345,153

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors is composed of non-employee directors, all of whom meet the independence requirements of the New York Stock Exchange. The Committee is responsible for the establishment and oversight of executive compensation policies. The Company s executive compensation program is significantly linked to Share Owner return. The emphasis is on pay for performance with individual, business unit, and corporate performance rewarded on an annual and long-term basis.

The Company s objective is to attract, retain, and motivate high-caliber executives who will deliver superior performance that enhances Share Owner value. To support this objective, the Company has developed performance-based executive compensation plans with compensation opportunities targeted at the 50th percentile of the Company s peer group of companies. Awards will vary above or below the 50th percentile of the peer group based on performance.

The Committee reviews and approves financial goals and objectives for the Chief Executive Officer (CEO) and other executive officers at least annually and evaluates performance against those goals and objectives at the conclusion of each performance period. The Committee recommends to the independent members of the Board of Directors the compensation for the CEO and the other executive officers. In discharging its responsibilities, the Committee calls upon an independent outside consultant who acts on behalf of the Committee when working with management on matters that come before the Committee.

Compensation Principles

To achieve the Company s objectives, the Committee s review of executive compensation incorporates the following compensation principles:

Compensation should encourage behavior that exemplifies the values that the Company believes are essential in building long-term growth in sales and profit, enhancing its worldwide leadership position, and providing

increased value for Share Owners. These shared values are being passionate about our business, brands, and food; having the humility and hunger to learn; striving for simplicity; acting with integrity and respect; being accountable; and loving success.

Compensation should be competitive with comparable organizations and should reward performance and contribution to the Company s objectives.

As employees assume greater responsibilities, a larger proportion of their total compensation will be at-risk incentive compensation (both annual and long-term), subject to individual, business unit, and corporate performance measures.

Consistent performance is expected against defined targets and measures.

Equity-based incentives are an effective method of aligning the interests of employees and Share Owners and encouraging employees to think and act like owners.

The Committee believes that a compensation program guided by these basic principles works to ensure present and future leadership performance that will result in optimal returns to the Company s Share Owners over time.

Total Compensation

An executive s total compensation is composed of salary, annual bonus, long-term incentives, and benefits. The target for total compensation for executives is the 50th percentile of a select group of seventeen companies (the peer group). These companies were chosen as a benchmark for establishing executive pay levels because of their superior reputation and performance and their relevance to Kellogg Company. Most of the companies that comprise the S&P Packaged Foods Index are included in this group.

Salaries

Executive salaries are established through a survey of the peer group conducted by an independent compensation consultant. Executive salaries are targeted at the 50th percentile of this group of companies.

The Company s Executive Compensation Deferral Plan is intended to ensure that compensation is deductible under Section 162(m) of the Internal Revenue Code. Pursuant to this plan, which the Company was not legally required to adopt, the portion of any executive s salary that is over $950,000 is automatically deferred. The deferred amount is credited to an account in the form of units that are equivalent to the fair market value of the Company s common stock. The units are payable upon retirement.

Annual Bonuses

Bonuses are a percentage of the executive s base salary and are targeted at the 50th percentile of the peer group. The target bonus is adjusted for appropriate corporate, business unit, and individual performance factors, given the functions of the particular executive. Corporate performance was determined based on net sales, cash flow, and operating profit. In 2003, bonuses could range from 0% to 200% of the target bonus.

The Company has a Senior Executive Annual Incentive Plan (the Incentive Plan) that is a performance-based plan intended to meet the deductibility requirements of IRC Section 162(m). The Compensation Committee administers the Incentive Plan. Awards are based on the achievement of pre-established performance factors, including long-term financial and non-financial objectives. With respect to the CEO, the factors are the same as those utilized by the Committee in its annual determination of his performance. The total of all bonuses granted under the Incentive Plan shall not exceed 1% of the annual net income (as defined in the Incentive Plan) of the Company.

Long-Term Incentives

In order to strengthen the mutuality of interest between key employees and the Share Owners of the Company, the Company s long-term incentive program permits grants of options to purchase shares of the Company s common stock, stock appreciation rights, restricted shares, or performance units under the 2003 Long-Term Incentive Plan. The 2003 Long-Term Incentive Plan is designed to attract, retain, and reward key employees of the Company. Long-term incentives are targeted at the 50th percentile of the peer group. A large percentage of long-term incentive opportunity is delivered through stock options.

The Company believes that option grants under the 2003 Long-Term Incentive Plan meet the requirements for deductible compensation under Section 162(m). The Committee reserves the flexibility to award compensation

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outside of any plan qualifying under Section 162(m) should circumstances arise under which payment of such additional compensation would be in the best interests of the Company and its Share Owners.

Pursuant to the 2001 Long-Term Incentive Plan, the Committee approved a program in early 2001 under which certain senior executives of the Company may receive a portion of their long-term incentives in performance units. This program is intended to focus senior management on critical multi-year operational goals, including cash flow, sales growth, and gross margin expansion. The number of units earned is based on the Company s cumulative performance over a three-year period compared against one or more key performance measures and is generally settled in shares of the Company s common stock. The Committee approved a second three-year cycle of this program commencing in 2002 and a third cycle commencing in 2003. The Committee feels that the first of these plans has played an important role in the strong cash flow performance the Company has achieved from 2001 through 2003.

Chief Executive Officer Compensation

For 2003, the Committee determined the salary, bonus, and long-term incentive awards of the CEO substantially in conformance with the policies described above for all executives of the Company.

The Committee evaluated the performance of the CEO based on the Company s achievement of its long-term financial and non-financial objectives. The Committee has determined that the accountabilities for the CEO are business performance, strengthening the organization, and creating the future. The accountability for business performance includes stock price performance, operating profit and earnings per share growth, sales growth, and cash flow. The accountability for strengthening the organization includes developing the strongest possible senior management team, the strongest possible talent in core jobs within the organization, continuous upgrade of talent, and diversity in the workforce. Creating the future includes developing, monitoring, updating, and implementing long-term business strategies.

In connection with business performance, the Committee considered that the Company s total Share Owner return (share price appreciation plus dividends) was 15% in 2003, significantly above the 5% return of the S&P Packaged Food Index. This marked the third consecutive year of performance substantially greater than the Company s peer group of large packaged food companies.

Internal net sales growth (which excludes the impact of acquisitions, divestitures, and foreign currency translation) was 4%, which exceeded the 3% average of the Company s peer group. In spite of significant investments in brand building, asset write-offs, impairments, and up-front costs related to cost-savings initiatives, earnings per share (EPS) increased by 10% in 2003. This growth was ahead of the Company s long-term target of high single-digit growth. For the third consecutive year, cash flow exceeded expectations. The Company s record cash flow performance during 2001-2003 restored its financial flexibility and enabled the Company to reduce its debt by $1.6 billion.

In connection with strengthening the organization, the Committee recognized that Mr. Gutierrez has assembled a strong management team and took further steps in 2003 to develop future leaders within the Company by promoting and assigning new or additional responsibilities for key executives. In connection with creating the future, the Committee noted the continued success of the Company s emphasis on value over volume and its commitment to secure future growth through investments in 2003 and brand building initiatives.

The Committee does not assign relative weights or rankings to the foregoing factors, but instead makes a subjective determination based upon a consideration of all such factors. The Committee believes that Mr. Gutierrez s total compensation for 2003 appropriately reflects the Company s performance as measured against all factors described in the preceding paragraphs.

COMPENSATION COMMITTEE

John L. Zabriskie (Chairman)

Claudio X. Gonzalez
Gordon Gund
Ann McLaughlin Korologos
William C. Richardson

February 19, 2004

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Stock Performance Graph

The following graph compares the yearly change in the Company s cumulative, five-year total Share Owner return with the Standard & Poor s 500 Stock Index (the S&P 500) and the Standard & Poor s Packaged Foods Index (the S&P Foods). The graph assumes that $100 was invested on December 31, 1998, in each of the Company s common stock, the S&P 500, and the S&P Foods, and assumes that all dividends were reinvested.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*

AMONG KELLOGG COMPANY, THE S&P 500 INDEX AND THE S&P PACKAGED FOODS & MEATS INDEX

	Cumulative Total Return					
	12/98	**12/99**	**12/00**	**12/01**	**12/02**	**12/03**
KELLOGG COMPANY	100.00	92.76	82.28	97.72	115.07	130.27
S&P 500	100.00	121.04	110.02	96.95	75.52	97.18
S&P PACKAGED FOODS & MEATS	100.00	78.65	99.58	101.59	104.48	113.01

* $100 invested on 12/31/98 in stock or index-including reinvestment of dividends. Fiscal year ending December 27.
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www.researchdatagroup.com/S&P.htm

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Proposal 2.

RATIFICATION OF INDEPENDENT AUDITORS FOR 2004

PricewaterhouseCoopers LLP has been selected by the Audit Committee, which is composed entirely of independent directors, to be the independent auditor for the Company for fiscal year 2004. PricewaterhouseCoopers LLP was the Company s independent auditor for fiscal year 2003. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting and to have an opportunity to make a statement if they desire to do so. The PricewaterhouseCoopers LLP representative is also expected to be available to respond to appropriate questions at the meeting.

If the Share Owners fail to ratify the appointment of PricewaterhouseCoopers LLP, the Audit Committee would reconsider its appointment.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS.

Proposal 3.

SHARE OWNER PROPOSAL

The Sisters of Mercy, Regional Community of Detroit Charitable Trust, 29000 Eleven Mile Road, Farmington Hills, MI 48336-1405, which holds 400 shares of Kellogg Company common stock, has notified the Company that they intend to present the following proposal at the Annual Meeting of Share Owners. The Society of St. Ursula, Rhinebeck, NY and the Ursuline Sisters of the Eastern Province of the U.S., Inc. are co-sponsoring this proposal.

Adoption of the proposal will require the affirmative vote of holders of a majority of the shares of common stock represented in person or by Proxy at the meeting. SEC rules require that we reprint the proposal as it was submitted to us. The proposal, as submitted, is as follows:

REPORT ON IMPACTS OF GENETICALLY ENGINEERED FOOD

Kellogg Company

RESOLVED: Shareholders request that our Board review the Company s policies for food products containing genetically engineered (GE) ingredients and report to shareholders within six months of the annual meeting. This report, developed at reasonable cost and omitting proprietary information will:

Identify the scope of the Company s food products derived from or containing GE ingredients;

Identify the environmental impacts of continued use of GE ingredients in food products sold or manufactured by the company;

Outline a contingency plan for sourcing non-GE food ingredients should circumstances so require.

We urge that with this review, Kellogg address issues competitive advantage and brand name loyalty in the marketplace.

SUPPORTING STATEMENT

Indicators that genetically engineered food may be harmful to humans, animals, or the environment include:

The United States Department of Agriculture reported (7/2003) that 21 percent of all farms growing *Bt* corn in ten Midwestern states, equivalent to 26 percent of acreage, failed to comply with the Environmental Protection Agency s refuge requirements designed to prevent insect immunity to Bt toxin. We believe protection of insect susceptibility to Bt is in the public good.

FDA does not assure the safety of GE products; it is the developer s responsibility to assure that the food is safe. The FDA lacks both the authority and the information to adequately evaluate the safety of GE foods. (Center for Science in the Public Interest, 1/2003).

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Fearing that pollen from corn not approved for human consumption may have spread to nearby fields of ordinary corn, the U.S. Department of Agriculture requested that 155 acres of Iowa corn uprooted and incinerated (9/2002); 500,000 bushels of soybeans in Nebraska were quarantined due to contamination by small amounts of a test pharmaceutical/industrial crop (11/2002).

A report commissioned by the Pew Initiative on Food and Biotechnology (4/2003) casts doubt on the preparedness of the current post-market oversight program to achieve its traditional objectives, including the enforcement of regulatory restrictions and the detection and correction of unanticipated health or environmental problems.

The glyphosate herbicide is used widely by farmers who plant genetically engineered glyphosate resistant crops. Indications are that weed resistance to glyphosate is increasing (Penn State College of Agricultural Sciences News 5/30/03).

In December 2002, StarLink corn, not approved for human consumption, was detected in a U.S. corn shipment to Japan. StarLink was first discovered to have contaminated U.S. corn supplies in September 2000, triggering a recall of 300 products.

Indicators of market resistance to GE-foods:

A Pew Global Attitudes survey (6/2003) indicates that Western Europeans and Japanese overwhelmingly oppose GE-foods for health and environmental reasons. In the United States 55% are opposed according to this survey.

Many of Europe s larger food retailers [J.Sainsbury (UK), Carrefour (France s largest retailer), Migros (Switzerland s largest food chain), Delhaize (Belgium) Marks and Spencer (UK), Superquinn (Ireland) and Effelunga (Italy)J have committed to removing GE ingredients from their store-brand products.

STATEMENT IN OPPOSITION TO THE PROPOSAL

Kellogg Company has provided quality food products to consumers for over 90 years. Kellogg has, and always will have, great concern for food safety. Although we recognize that the issues of biotechnology and genetically engineered foods raise concerns with certain consumers, Kellogg s management and Board of Directors believe that the Share Owner proposal set forth above should be rejected for a variety of reasons, including the following:

We believe the proposal is not scientifically sound.

Based upon all of the scientific data available to date, Kellogg firmly believes all of the products that we sell, including those that contain ingredients developed through biotechnology, are safe. The U.S. Government agrees. The Commissioner of Food and Drugs at the U.S. Department of Agriculture, Mark B. McClellan M.D., Ph.D. offers the opinion The Food and Drug Administration is confident that the genetically engineered food products on the U.S. market today are as safe as their conventionally bred counterparts. The United States Department of Agriculture is one of three federal agencies, along with the Environmental Protection Agency and the U.S. Food and Drug Administration, primarily responsible for regulating biotechnology in the United States. For further information on the regulation and benefits of biotechnology we suggest that you visit the USDA website at www.usda.gov and click on the heading Biotechnology.

Preparing the report would be costly and could jeopardize the Company and Share Owners.

Preparing the report requested would require the Company to first determine which genetic modifications constitute genetic engineering and which do not. In addition, we understand that the use of genetic engineering with respect to some raw materials such as corn and soybeans is widespread. Given the difficulty of differentiating genetically modified ingredients from their unmodified counterparts with current test techniques, we believe that the requested report cannot be prepared at a reasonable cost. Additionally, publication of the Company s business and product plans because of highly speculative opinions could jeopardize the business interests of the Company and its Share Owners.

Adopting the proposal would not aid in consumer understanding of the issue.

Some government leaders, scientists, religious leaders, and a wide range of individuals around the world believe that the use of biotechnology in foods could give us great benefits, including the ability to save and improve human lives by increasing food production, providing increased nutrients and possibly vaccines in food, and

allowing for the reduced use of pesticides, helping to better preserve our environment for future generations. The proponents do not address these considerations.

The proponents also do not address the great progress made by farmers and scientists who have been improving products through cross-pollination and other breeding techniques for well over 100 years. This has led to an ever-improving food supply, producing crops that are larger, more resistant to insects and diseases, and more plentiful. We believe that our Share Owners will be better served if this progress continues while your Company remains sensitive to consumer concerns and product acceptance.

A somewhat related proposal was soundly defeated by Share Owners in 2000.

In 2000, a stockholder proposal requesting that the Board of Directors adopt a policy of removing generically engineered organisms from all products sold or manufactured by the Company, where feasible, was defeated by a vote of 8.4 million shares For, 332.8 million shares Against, with 10.8 million shares Abstaining.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE PROPOSAL.

Share Owner Recommendations for Director Nominees

The Nominating and Governance Committee will consider Share Owner nominations for membership on the Board of Directors. For the 2005 Annual Meeting of Share Owners, nominations may be submitted to the Office of the Secretary, Kellogg Company, One Kellogg Square, Battle Creek, Michigan 49017, which will forward them to the Chairman of the Nominating and Governance Committee. Recommendations must be in writing and must be received by the Company not earlier than the 120th day prior to the 2004 meeting and not later than February 1, 2005. Recommendations must also include certain other requirements specified in the Company s Bylaws.

The Nominating and Governance Committee believes that all nominees must, at a minimum, meet the criteria set forth in the Board of Directors Code of Conduct and the Corporate Governance Guidelines, which specify, among other things, that the Nominating and Governance Committee will consider criteria such as independence, diversity, age, skills, and experience in the context of the needs of the Board. The Nominating and Governance Committee also will consider a combination of factors for each nominee, including (a) the nominee s ability to represent all Share Owners without a conflict of interest; (b) the nominee s ability to work in and promote a productive environment; (c) whether the nominee has sufficient time and willingness to fulfill the substantial duties and responsibilities of a director; (d) whether the nominee has demonstrated the high level of character and integrity expected by the Company; (e) whether the nominee possesses the broad professional and leadership experience and skills necessary to effective respond to the complex issues encountered by a multi-national, publicly-traded company; and (f) the nominee s ability to apply sound and independent business judgment.

When filling a vacancy on the Board, the Nominating and Governance Committee identifies the desired skills and experience of a new director in light of the criteria described above and the skills and experience of the then-current directors. Directors are generally asked to recommend candidates for the position, and the Nominating and Governance Committee may, as it has done in the past, engage third parties to assist in the search and provide recommendations. The candidates would be evaluated based on the process outlined in the Corporate Governance Guidelines and the Nominating and Governance Committee charter, and the same process would be used for all candidates, including candidates recommended by Share Owners.

Directors are expected to attend the Annual Meeting of Share Owners, and eleven of the twelve Directors attended last year s Annual Meeting of Share Owners.

Share Owner Proposals for the 2005 Annual Meeting

Share Owner proposals submitted for inclusion in the Company s Proxy Statement for the 2005 Annual Meeting of Share Owners must be received by the Company no later than November 17, 2004. Other Share Owner proposals to be submitted from the floor must be received by the Company not earlier than the 120th day prior to the 2005 meeting and not later than February 1, 2005, and must meet certain other requirements specified in the Company s Bylaws.

Communications with Board of Directors

Mr. Gund, the Chairman of the Nominating and Governance Committee, presides at executive sessions of the Board of Directors. Mr. Gund may be contacted at gordon.gund@kellogg.com. Any communications which Share Owners may wish to send to the Board of Directors may also be directly sent to Mr. Gund at this email address.

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Householding of Proxy Materials

The Securities and Exchange Commission permits companies and intermediaries (e.g. brokers) to satisfy the delivery requirements for Proxy Statements (and related documents) with respect to two or more Share Owners sharing the same address by delivering a single Proxy Statement (and related documents) addressed to those Share Owners. This process, which is commonly referred to as householding, potentially means extra convenience for Share Owners and cost savings for companies.

A number of brokers with account holders who are Share Owners will be householding our Proxy materials. As indicated in the notice previously provided by these brokers to Share Owners, a single Proxy Statement (and related documents) will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from an affected Share Owner or Share Owners. Once you have received notice from your broker or the Company that they will be householding communications to your address, householding will continue until you are notified otherwise or until the Company or the Company s transfer agent receives contrary instructions from an affected Share Owner or Share Owners.

Share Owners who currently receive multiple copies of the Proxy Statement (and related documents) at their address and would like to request householding of their communications should contact their broker or, if a Share Owner is a direct holder of shares of common stock, he or she should submit a written request to Wells Fargo Shareowner Services, the Company s transfer agent, at 161 North Concord Exchange, South St. Paul, MN 55075; phone number: 877-910-5385. Share Owners who are now householding their communications, but who wish to receive separate Proxy Statements (and related documents) in the future may also notify Wells Fargo Shareowner Services. The Company will promptly deliver, upon written or oral request, a separate copy of the Proxy Statement (and related documents) at a shared address to which a single copy was delivered.

Annual Report on Form 10-K; No Incorporation by Reference

Upon written request, the Company will provide any Share Owner, without charge, a copy of the Company s Annual Report on Form 10-K for 2003 filed with the SEC, including the financial statements and schedules, but without exhibits. Direct requests to Kellogg Company, P.O. Box CAMB, Battle Creek, Michigan 49016-1986 (phone: (800) 961-1413), to Ellen Leithold of the Investor Relations Department at that same address (phone: (269) 961-2800), or to investor.relations@kellogg.com. You may also obtain this document and certain other of the Company s SEC filings through the Internet at www.sec.gov or under Investor Relations at www.kelloggcompany.com, the Kellogg Company website. Copies of the Corporate Governance Guidelines, the Charters of the Audit, Compensation, and Nominating and Governance Committees of the Board of Directors, the Code of Conduct for Kellogg Company directors, and Global Code of Ethics for Kellogg Company employees (including the chief executive officer, chief financial officer, and corporate controller) can also be found on the Kellogg Company website under Corporate Governance. Amendments or waivers to the Global Code of Ethics applicable to the chief executive officer, chief financial officer, and corporate controller can also be found on the Kellogg Company website.

Notwithstanding any general language that may be to the contrary in any document filed with the SEC, the information in this Proxy Statement under the captions REPORT OF THE AUDIT COMMITTEE, and REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION (including the Stock Performance Graph) shall not be incorporated by reference into any document filed with the SEC.

By Order of the Board of Directors,

Gary H. Pilnick

Senior Vice President,
General Counsel and Secretary

March 17, 2004

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KELLOGG COMPANY, BATTLE CREEK, MICHIGAN 49016-3599

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KELLOGG COMPANY
POST OFFICE BOX 3599
ONE KELLOGG COMPANY
BATTLE CREEK, MI
49016-3599

VOTE BY PHONE 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on April 22, 2004. Have the proxy card in hand when you call and then follow the instructions.

VOTE BY INTERNET www.proxyvote.com
Use the internet to transmit your voting instructions for electronic delivery of information up until 11:59 p.m. Eastern Time on April 22, 2004. Have the proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY MAIL
Mark, sign and date the proxy card and return it in the postage-paid envelope we have provided or return to Kellogg Company, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Kellogg Company Board of Directors recommends a vote **FOR** the following proposal. If you sign and return this card without marking, this proxy card will be treated as being **FOR** the following proposal.

1. ELECTION OF DIRECTORS	**For All**	**Withhold All**	**For All Except**	**To withhold authority to vote, mark For All Except and write the nominee s number on the line below.**
(terms expiring in 2007) Nominees:				
01) Benjamin S. Carson, Sr.	o	o	o	
02) Gordon Gund				
03) Dorothy A. Johnson				
04) Ann McLaughlin Korologos				

The Kellogg Company Board of Directors recommends a vote **FOR** the following proposal. If you sign and return this card without marking, this proxy card will be treated

as being **FOR** such proposal.

2. Ratification of independent auditor for 2004	**For**	**Against**	**Abstain**
	o	o	o

The Board of Directors recommends a vote **AGAINST** the following stockholder proposal. If you sign and return this card without marking, this proxy card will be treated as being **AGAINST** such proposal.

3. Report on Impacts of Genetically Engineered Food	o	o	o

NOTE: Please sign exactly as name(s) appear hereon. When signing as attorney, executor, administrator, trustee, or guardian, please give full name as such.

Signature (PLEASE SIGN WITHIN BOX) ______________________________ Date __________

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KELLOGG COMPANY

ADMISSION TICKET

You are cordially invited to attend the Annual Meeting of Share Owners of Kellogg Company to be held on Friday, April 23, 2004 at 1:00 p.m. at the W. K. Kellogg Auditorium, 60 West Van Buren Street, Battle Creek, Michigan.

You should present this admission ticket in order to gain admittance to the meeting. This ticket admits only the share owner(s) listed on the reverse side and is not transferable. If your shares are held in the name of a broker, trust, bank or other nominee, you should bring a proxy or letter from the broker, trustee, bank or nominee confirming your beneficial ownership of the shares.

KELLOGG COMPANY
PROXY FOR ANNUAL MEETING OF SHARE OWNERS APRIL 23, 2004

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned appoints C. M. Gutierrez, and W. C. Richardson, or each one of them as shall be in attendance at the meeting, as proxy or proxies, with full power of substitution, to represent the undersigned at the Annual Meeting of Share Owners of Kellogg Company to be held on April 23, 2004 and at any adjournments of the meeting, and to vote as specified on this Proxy the number of shares of common stock of Kellogg Company as the undersigned would be entitled to vote if personally present, upon the matters referred to on the reverse side hereof, and, in their discretion, upon any other business as may properly come before the meeting.

IMPORTANT This Proxy is continued and must be signed and dated on the reverse side.

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