

FORTUNE BRANDS INC
Form 10-Q
November 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004

Commission file number 1-9076

FORTUNE BRANDS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-3295276
(I.R.S. Employer
Identification No.)

300 Tower Parkway, Lincolnshire, Illinois
(Address of principal executive offices)

60069-3640
(Zip Code)

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Registrant's telephone number, including area code: (847) 484-4400

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's common stock, par value \$3.125 per share, at October 31, 2004 was 144,153,116.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.

FORTUNE BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

(Unaudited)

	September 30,	December 31,
	2004	2003
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash and cash equivalents	\$ 195.1	\$ 104.6
Accounts receivable, net	1,051.0	973.4
Inventories		
Bulk whiskey	252.5	231.4
Other raw materials, supplies and work in process	313.1	281.2
Finished products	483.8	443.6
	<u> </u>	<u> </u>
	1,049.4	956.2
Other current assets	262.9	247.4
	<u> </u>	<u> </u>
Total current assets	2,558.4	2,281.6
Property, plant and equipment, net	1,322.1	1,358.9
Goodwill resulting from business acquisitions, net	2,002.1	2,439.5
Other intangible assets resulting from business acquisitions, net	1,356.4	889.1
Other assets	481.2	475.8
	<u> </u>	<u> </u>
Total assets	\$ 7,720.2	\$ 7,444.9
	<u> </u>	<u> </u>

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

(Unaudited)

	September 30,	December 31,
	2004	2003
Liabilities and stockholders' equity		
Current liabilities		
Notes payable to banks	\$ 17.3	\$ 24.1
Commercial paper	526.0	506.3
Current portion of long-term debt	200.4	200.5
Accounts payable	350.4	316.4
Accrued taxes	300.5	342.6
Accrued customer programs	217.6	184.6
Accrued salaries, wages and other compensation	166.5	166.3
Accrued expenses and other liabilities	426.6	392.7
Total current liabilities	2,205.3	2,133.5
Long-term debt	1,241.0	1,242.6
Deferred income	153.0	173.3
Other liabilities	868.1	806.5
Total liabilities	4,467.4	4,355.9
Minority interest in consolidated subsidiaries	371.2	369.5
Stockholders' equity		
\$2.67 Convertible Preferred stock, redeemable at Company's option	7.2	7.5
Common stock, par value \$3.125 per share, 229.6 million shares issued	717.4	717.4
Paid-in capital	142.1	126.7
Accumulated other comprehensive loss	(96.0)	(106.2)
Retained earnings	5,293.1	4,942.2
Treasury stock, at cost	(3,182.2)	(2,968.1)
Total stockholders' equity	2,881.6	2,719.5
Total liabilities and stockholders' equity	\$ 7,720.2	\$ 7,444.9

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the Nine Months Ended September 30, 2004 and 2003

(In millions, except per share amounts)

(Unaudited)

	<u>2004</u>	<u>2003</u>
Net sales	\$ 5,409.4	\$ 4,558.0
Cost of products sold	2,992.3	2,478.9
Excise taxes on spirits and wine	214.2	220.4
Advertising, selling, general and administrative expenses	1,334.8	1,163.3
Amortization of intangibles	28.0	14.1
Restructuring charges	28.8	17.4
Write-down of identifiable intangibles		12.0
Operating income	811.3	651.9
Interest expense	65.9	55.0
Other income, net	(36.6)	(35.5)
Income before income taxes and minority interests	782.0	632.4
Income taxes	233.9	198.0
Minority interests	13.8	12.1
Net income	\$ 534.3	\$ 422.3
Earnings per common share		
Basic	\$ 3.67	\$ 2.90
Diluted	\$ 3.56	\$ 2.82
Dividends paid per common share	\$ 0.93	\$ 0.84
Average number of common shares outstanding		
Basic	145.3	145.5
Diluted	150.3	149.9

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the Three Months Ended September 30, 2004 and 2003

(In millions, except per share amounts)

(Unaudited)

	<u>2004</u>	<u>2003</u>
Net sales	\$ 1,812.1	\$ 1,583.8
Cost of products sold	1,002.9	851.7
Excise taxes on spirits and wine	70.6	78.6
Advertising, selling, general and administrative expenses	436.5	400.4
Amortization of intangibles	8.6	4.6
Restructuring charges	7.7	9.6
Operating income	285.8	238.9
Interest expense	22.5	18.2
Other income, net	(10.1)	(18.8)
Income before income taxes and minority interests	273.4	239.5
Income taxes	41.7	89.5
Minority interests	4.9	3.9
Net income	\$ 226.8	\$ 146.1
Earnings per common share		
Basic	\$ 1.57	\$ 1.01
Diluted	\$ 1.52	\$ 0.97
Dividends paid per common share	\$ 0.33	\$ 0.30
Average number of common shares outstanding		
Basic	144.0	145.1
Diluted	148.8	149.9

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the Nine Months Ended September 30, 2004 and 2003

(In millions)

(Unaudited)

	<u>2004</u>	<u>2003</u>
Operating activities		
Net income	\$ 534.3	\$ 422.3
Restructuring charges	6.9	10.0
Depreciation and amortization	167.9	143.6
Deferred income taxes	8.2	47.7
Write-down of identifiable intangibles		12.0
Increase in accounts receivable	(67.7)	(69.0)
(Increase) decrease in inventories	(88.5)	2.9
Increase (decrease) in accounts payable, accrued expenses and other liabilities	9.2	(0.1)
Increase in accrued taxes	21.6	8.1
Tax benefit on exercise of stock options	19.4	9.8
Other operating activities, net	(11.5)	(48.3)
Net cash provided from operating activities	<u>599.8</u>	<u>539.0</u>
Investing activities		
Additions to property, plant and equipment	(148.6)	(121.2)
Acquisitions and dispositions, net of cash acquired	(29.7)	(114.4)
Proceeds from the disposition of property, plant and equipment	20.2	11.0
Net cash used by investing activities	<u>(158.1)</u>	<u>(224.6)</u>
Financing activities		
Increase in short-term debt, net	13.2	217.3
Dividends paid to stockholders	(135.8)	(122.8)
Issuance of long-term debt		0.2
Repayment of long-term debt	(3.3)	(107.7)
Cash purchases of common stock for treasury	(262.9)	(168.0)
Proceeds received from exercise of stock options	37.4	47.6
Other financing activities, net	(9.1)	(41.7)
Net cash used by financing activities	<u>(360.5)</u>	<u>(175.1)</u>