

FORTUNE BRANDS INC  
Form 10-K  
March 14, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form **10-K**

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

For the fiscal year ended December 31, 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**  
(IRS Employer  
Identification No.)

**300 Tower Parkway, Lincolnshire, IL 60069-3640**  
(Address of principal executive offices) (Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
Common Stock, par value \$3.125 per share	New York Stock Exchange, Inc.
\$2.67 Convertible Preferred Stock, without par value	New York Stock Exchange, Inc.
8 <sup>5</sup> / <sub>8</sub> % Debentures Due 2021	New York Stock Exchange, Inc.
7 <sup>7</sup> / <sub>8</sub> % Debentures Due 2023	New York Stock Exchange, Inc.

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

## Edgar Filing: FORTUNE BRANDS INC - Form 10-K

The aggregate market value of registrant's voting stock held by non-affiliates of registrant, at June 30, 2004 (the last day of our most recent second quarter), was \$10,877,245,399.39. The number of shares outstanding of registrant's common stock, par value \$3.125 per share, at February 10, 2005, was 144,886,374.

### DOCUMENTS INCORPORATED BY REFERENCE

- (1) Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant to be held on April 26, 2005 (to be filed not later than 120 days after the end of registrant's fiscal year) (the 2005 Proxy Statement) is incorporated by reference into Part III hereof.

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## PART I

### Item 1. Business.

#### (a) General development of business.

Fortune Brands, Inc. is a holding company with subsidiaries engaged in the manufacture, production and sale of Home and Hardware products, Spirits and Wine, Golf products and Office products. References to we, our and the Company refer to Fortune Brands, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

The Company was incorporated under the laws of Delaware in 1985 and until 1986 conducted no business. Prior to 1986, the businesses of the Company's subsidiaries were conducted by American Brands, Inc., a New Jersey corporation organized in 1904 (American New Jersey), and its subsidiaries. American New Jersey was merged into The American Tobacco Company (ATCO) on December 31, 1985, and the shares of the principal first-tier subsidiaries formerly held by American New Jersey were transferred to the Company. In addition, the Company assumed all liabilities and obligations in respect of the public debt securities of American New Jersey outstanding immediately prior to the merger. On May 30, 1997, the Company's name was changed from American Brands, Inc. to Fortune Brands, Inc.

As a holding company, the Company is a legal entity separate and distinct from its subsidiaries. Accordingly, the right of the Company, and thus the right of the Company's creditors (including holders of debt securities and other obligations) and stockholders, to participate in any distribution of the assets or earnings of any subsidiary is subject to the claims of creditors of the subsidiary, except to the extent that claims of the Company itself as a creditor of such subsidiary may be recognized, in which event the Company's claims may in certain circumstances be subordinate to certain claims of others. In addition, as a holding company, a principal source of the Company's unconsolidated revenues and funds is dividends and other payments from subsidiaries. The Company's principal subsidiaries currently are not limited by long-term debt or other agreements in their abilities to pay cash dividends or to make other distributions with respect to their capital stock or other payments to the Company.

Fortune Brands' success is driven by leading consumer brands in four categories: Home and Hardware products, Spirits and Wine, Golf products and Office products. We seek to grow sales and profits by investing in the growth of our leading consumer brands. Our brand investments include support for marketing, advertising and the development of innovative new products. We also seek to gain market share by developing and expanding customer relationships.

While our first priority is internal growth, we add to that growth with high-return acquisitions and joint ventures that position our businesses for even stronger growth and higher returns. Accordingly, we have made the following acquisitions and joint venture partnerships in recent years:

In 2004:

- > Therma-Tru Holdings, Inc. acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems, and Master Lock Company acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. The aggregate purchase price of these two acquisitions was \$30.9 million.

In 2003:

- > Our Home and Hardware business acquired Therma-Tru Holdings, Inc. Therma-Tru is the leading brand of residential entry doors in the United States. The cost of the acquisition was \$924.0 million.

We also completed the following acquisitions for an aggregate cost of \$123.7 million:

Home and Hardware acquired:

- > Capital Cabinet Corporation, a cabinet supplier to builders in the Southwestern U.S. (June 2003).
- > American Lock Company, a manufacturer of commercial locks (April 2003).

Spirits and Wine acquired:

- > Wild Horse Winery, a maker of ultra-premium California wines (July 2003).
- > An extension of the rights to manufacture and distribute Gilbey's gin and vodka in the U.S. and trademark rights to Kamchatka vodka in California (December 2003).

Acquisitions and joint ventures from 2000-2002 were:

- > Omega Holdings, Inc., a leading manufacturer of custom and semi-custom cabinetry, acquired by our Home and Hardware business in 2002 for \$538.0 million.
- > Future Brands LLC (Future Brands), a joint venture established in 2001 by our Spirits and Wine business and V&S Vin & Sprit AB (V&S), the maker of ABSOLUT vodka, for the distribution of both companies' spirits brands in the United States.

We have also sold a number of nonstrategic businesses and product lines, including the sale of the Spirits and Wine business U.K.-based Scotch whisky business in 2001 for \$280 million, and the sale of the Home and Hardware unit's specialty plumbing parts business in 2002 for \$15 million.

On an ongoing basis, we review the portfolio of brands owned by our operating companies and evaluate our options for increasing shareholder value. Although no assurance can be given as to whether or when any acquisitions or dispositions will be made, we might finance acquisitions by issuing additional debt or equity securities. The possible additional debt from any completed acquisitions would increase the Company's debt-to-equity ratio and these debt or equity securities might, at least in the near term, have a dilutive effect on earnings per share. We also consider other corporate strategies intended to enhance shareholder value, including share repurchases and higher dividend payments. We cannot predict whether or when any particular strategy might be implemented or what the financial effect thereof might be upon the Company's debt or equity securities.

Another aspect of our strategy is to continuously improve the productivity, as well as cost and asset structures of our businesses. Cost-reduction opportunities resulted in pre-tax restructuring charges of \$29.2 million, \$19.5 million and \$45.9 million in 2004, 2003 and 2002, respectively.

## Cautionary Statement

Except for the historical information contained in this Annual Report on Form 10-K, certain statements in this document, including without limitation, certain matters discussed in Part I, Item 1 Business and Item 3 Legal Proceedings and in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. Readers are cautioned that these forward-looking statements speak only as of the date hereof, and the Company does not assume any obligation to update them. Actual results may differ materially from those projected as a result of certain risks and uncertainties including, but not limited to:

- > changes in general economic conditions,
- > foreign exchange rate fluctuations,
- > changes in interest rates,

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- > changes in commodity costs,
  - > returns on pension assets,
  - > competitive product and pricing pressures,
  - > trade consolidations,
  - > the impact of excise tax increases with respect to distilled spirits,
  - > regulatory developments,
  - > the uncertainties of litigation,
  - > changes in golf equipment regulatory standards,
  - > the impact of weather, particularly on the Home & Hardware and Golf businesses,
  - > increases in health care costs,
- as well as other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings.

(b) Financial information about industry segments.

See Note 18, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

(c) Narrative description of business.

The following is a description of the business of the subsidiaries of the Company in the industry segments of Home

and Hardware, Spirits and Wine, Golf and Office. For financial information about these industry segments, see Note 18, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

## Home and Hardware

Fortune Brands Home & Hardware, Inc. (Home and Hardware) is a holding company for subsidiaries in the Home and Hardware business. Subsidiaries include MasterBrand Cabinets, Inc. (MasterBrand Cabinets), Moen Incorporated (Moen), Therma-Tru Corp. (Therma-Tru), Master Lock Company (Master Lock) and Waterloo Industries, Inc. (Waterloo). The home and hardware industry is highly competitive. Home and Hardware's operating companies compete on the basis of product quality, price, service and responsiveness to distributor and retailer needs and end-user consumer preferences. Factors that affect the Home and Hardware business' results of operations include levels of home improvement and residential construction activity, principally in the U.S. Approximately 10% of Home and Hardware's sales are to international markets.

MasterBrand Cabinets is engaged in manufacturing custom, semi-custom, stock and ready-to-assemble kitchen cabinets and bathroom vanities. MasterBrand Cabinets sells under brand names including Aristokraft, Decora, Schrock, Diamond, Kemper, Omega, Kitchen Craft and HomeCrest. MasterBrand Cabinets sells directly to kitchen and bath specialty dealers, home centers, wholesalers and large builders. In June 2003, MasterBrand Cabinets acquired Capital Cabinet Corporation. In April 2002, MasterBrand Cabinets acquired Omega Holdings, Inc., a manufacturer of custom and semi-custom cabinetry. MasterBrand Cabinets' competitors include Masco, American Woodmark Corporation and Armstrong World Industries. MasterBrand Cabinets is the second largest cabinet manufacturer in North America.

Moen manufactures and/or sells faucets, bath furnishings, accessories, parts and kitchen sinks in North America and East Asia. Sales are made through Moen's own sales force and independent manufacturers' representatives primarily to wholesalers, mass merchandisers and home centers and also to industrial

distributors and original equipment manufacturers. Products are sold principally in the U.S. and Canada and also in East Asia, Mexico and Latin America. Moen's chief competitors include Masco, Black & Decker, Kohler, American Standard and imported private-label brands. Moen is the #1 faucet brand in North America.

In November 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc., a leading manufacturer of residential entry door systems in the United States. This acquisition fits our strategic focus on leading brands, shares beneficial demographics and market fundamentals with our other Home and Hardware brands, and creates valuable synergies within our Home and Hardware business. The purchase was financed through the issuance of commercial paper and subsequently partially refinanced through the issuance of long-term debt securities. See Note 6, Long-Term Debt, to the Consolidated Financial Statements. Results of operations have been included in the Company's consolidated financial statements as of the acquisition date.

Therma-Tru designs and manufactures fiberglass and steel residential entry door and patio door systems, primarily for sale in the United States, Canada and Western Europe. Therma-Tru's principal customers are building products distributors that sell door systems, windows, moldings and other millwork building products to the residential new construction market and home centers, as well as to the remodeling and renovation markets. Therma-Tru's competitors include Masonite, Jeld-Wen and Plastpro. In June 2004, Therma-Tru acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems. Therma-Tru is the #1 residential entry door brand in the U.S.

Master Lock manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, automotive, trailer and towing locks and other specialty security devices. Sales of products designed for consumer use are made to wholesale distributors, home centers and hardware and other retail outlets. Sales of lock systems are made to industrial and institutional users, original equipment manufacturers and retail outlets. Master Lock competes with Abus, Kryptonite, Hampton and various imports in the padlock segment. In April 2003, Master Lock acquired American Lock Company, a U.S.-based manufacturer of solid body commercial padlocks. In June 2004, Master Lock acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. Master Lock is the #1 padlock worldwide.

Waterloo manufactures tool storage products, principally high-quality steel toolboxes, tool chests, workbenches and related products. Waterloo sells to Sears for resale under the Craftsman brand owned by Sears, to Lowe's under the Kobalt brand name, and under the Waterloo brand name to specialty industrial and automotive dealers, mass merchandisers, home centers and hardware stores. Waterloo competes with Snap-On, Kennedy, Stanley, Stack-On and others in the metal storage segment, and with Contico, Zag, Rubbermaid and others in the plastic hand box category. Waterloo is the #1 tool storage manufacturer worldwide.

In November 2002, the Home and Hardware business sold the non-strategic plumbing parts business.

Raw materials used for the manufacture of products offered by Home and Hardware's operating companies are primarily red oak, maple and pine lumber, particleboard, rolled steel, brass, zinc, copper, nickel, and various plastic resins. These materials are available from a number of sources. In 2004, the Home and Hardware business experienced significant increases in the cost of commodities, particularly steel and particleboard (which were partially offset by price increases).

### **Spirits and Wine**

Jim Beam Brands Worldwide, Inc. (JBBW) is a holding company for subsidiaries in the distilled spirits and wine business. Principal subsidiaries include Jim Beam Brands Co. (JBBCo.), Future Brands LLC, a majority owned subsidiary (Future Brands), Jim Beam Brands Australia Pty. Limited and Peak Wines International, Inc.

In July 2003, the Spirits and Wine business acquired Wild Horse Winery, a California-based producer of premium and ultra-premium wines. In December 2003, the Spirits and Wine business extended the rights to manufacture and distribute Gilbey's gin and vodka for an additional 20 years, and also acquired the trademark and distribution rights to the Kamchatka vodka brand in California (the Spirits and Wine business already owned all other U.S. rights to Kamchatka).

On October 16, 2001, the Spirits and Wine business sold the U.K.-based Scotch whisky business. The sale of the business consisted of the Invergordon private-label and bulk Scotch operations and several regional brands in the U.K. The Company recorded an after-tax gain of \$21.8 million related to the sale.

On May 31, 2001, the Spirits and Wine business completed transactions with V&S Vin & Sprit AB (V&S), maker of ABSOLUT vodka, creating the Future Brands LLC joint venture to distribute both companies' spirits brands in the United States. V&S paid \$270 million to gain access to JBBCo.'s U.S. distribution network and to acquire a 49% interest in Future Brands, and paid \$375 million to purchase a 10% equity interest in JBBW in the form of convertible preferred stock. V&S also acquired a three-year option to increase its equity stake in JBBW by up to an additional 9.9%, which expired unexercised. V&S may require the Company to purchase the JBBW preferred stock in whole or in part at any time after May 31, 2004 or upon a change in control of JBBW, JBBCo., or certain other events.

In August 1999, JBBW formed the Maxxium international sales and distribution joint venture with Remy Cointreau S.A. and Highland Distillers Group Limited to distribute and sell premium wines and spirits in key markets outside the United States. Concurrent with the formation of Future Brands in May 2001, V&S acquired a 25% interest in Maxxium.

Principal markets for the products of JBBW's subsidiaries are the U.S., Australia and the U.K. Approximately 25% of our Spirits and Wine business sales are to international markets.

JBBW's leading brands are owned by its subsidiaries, except that DeKuyper cordials are produced and sold in the U.S. under a perpetual license, and Gilbey's gin and Gilbey's vodka are produced and sold in the U.S. under a license expiring September 30, 2027.

JBBCo., whose operations are located in the U.S., currently produces or imports, and markets a broad line of distilled spirits, including bourbon and other whiskeys, cordials, gin, vodka and rum. JBBCo. and its predecessors have been distillers of bourbon whiskey since 1795. JBBCo.'s leading brand names are Jim Beam bourbon whiskey, Knob Creek, Booker's, Baker's and Basil Hayden's small batch bourbons, DeKuyper cordials, The Dalmore single malt scotch whisky, El Tesoro tequila, Windsor Canadian supreme whisky, Kessler American blended whiskey, Kamora coffee liqueur, Ronrico rum, Vox vodka, Lord Calvert Canadian whisky and Gilbey's gin. Geyser Peak, Canyon Road and Wild Horse wines are produced and sold by Peak Wines International, Inc. Products of JBBW's subsidiaries are sold through various distributors. Products are sold through government-controlled liquor authorities in the 18 control states (and one county) in the U.S. that have established government control over certain aspects of the purchase and distribution of alcoholic beverages.

In October 2003, JBBW signed a development and distribution agreement with Starbucks Corporation to develop, manufacture and market a new product, Starbucks Coffee Liqueur, in the U.S. The product launched nationwide in the first quarter of 2005.

The distilled spirits business is highly competitive, with many brands sold in the consumer market. JBBW is the largest U.S.-based producer and marketer of distilled spirits and is among the major competitors worldwide. JBBW's subsidiaries compete on the basis of product quality, price, service and innovation in response to

consumer preferences. Major competitors include Diageo, Allied Domecq, Pernod Ricard, Brown-Forman, Bacardi and Constellation Brands. JBBW has the #1 bourbon and #1 small batch bourbon worldwide. DeKuyper is the #1 cordial in the U.S.

Over the past several years, there has been a trend toward consolidation of suppliers, distributors and retailers in the highly competitive global spirits and wine business. Continued consolidation may present pricing and service challenges for our Spirits and Wine business and our competitors. It may also present opportunities, particularly for the most efficient and innovative companies.

The peak season for the Spirits and Wine business is the fourth quarter due to seasonal holiday buying.

Because whiskeys are aged for various periods, generally from three to nine years, subsidiaries of JBBW maintain, in accordance with industry practice, substantial inventories of aging bulk whiskey in warehouse facilities. Whiskey production is generally scheduled to meet demand years into the future, and production schedules are adjusted from time to time to bring inventories into balance with estimated future demand. In addition, JBBW may, from time to time, seek to purchase bulk whiskey if necessary to meet estimated future demand.

The principal raw materials for the production, storage and aging of distilled products, especially whiskeys, are primarily corn, other grains, and new oak barrels. These materials are readily available from a number of sources except that new oak barrels are available from only a limited number of major sources, one of which is owned by a competitor. JBBCo. has a long-term supply agreement for new oak barrels.

The principal raw materials used in the production of wines are grapes, barrels and packaging materials. Grapes are primarily purchased from independent growers under long-term supply contracts and, from time to time, are affected by weather and other forces that may impact production and quality.

The production, storage, transportation, distribution and sale of the products of JBBW's subsidiaries are subject to regulation by federal, state, local and foreign authorities. Various local jurisdictions prohibit or restrict the sale of distilled spirits and wine in whole or in part.

In the U.S., U.K. and many other countries, distilled spirits and wine are subject to federal excise taxes and/or customs duties as well as state, local and other taxes. Beverage alcohol sales are sensitive to higher excise tax rates. Although no federal excise tax increase is presently pending in the U.S., our largest market, many states are considering possible excise tax increases and the possibility of future increases cannot be ruled out. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases would have an adverse effect on unit sales and increase existing competitive pressures.

## **Golf**

Acushnet Company (Acushnet), together with its subsidiaries, is a leading manufacturer and distributor of golf balls, golf clubs, golf shoes and golf gloves. Other products include golf bags, golf outerwear and accessories. Acushnet's leading brands are Titleist and Pinnacle golf balls; Titleist and Cobra golf clubs; Scotty Cameron by Titleist putters; FootJoy golf shoes; FootJoy and Titleist golf gloves; and FootJoy outerwear. Acushnet products are sold primarily to on-course golf pro shops and selected off-course golf specialty and sporting goods stores throughout the United States. Sales are made in the U.K., Canada, Germany, Austria, Denmark, Ireland, France, Sweden, The Netherlands, South Africa, Thailand, Singapore, Malaysia, Australia, New Zealand, Korea and Japan through subsidiaries and outside these areas through distributors or agents. Approximately 30% of Acushnet's sales are to international markets.

Acushnet and its subsidiaries compete on the basis of product quality, product innovation, price, service and responsiveness to consumer preferences. Acushnet has leading market positions in golf balls (Titleist), as well as golf shoes and golf gloves (FootJoy). Acushnet also has a leading market position in golf clubs in the U.S. (Titleist & Cobra). In golf balls, Acushnet's main competitors are Top Flite, Nike, Bridgestone, Callaway and Maxfli. In golf clubs, Callaway, TaylorMade, Ping, Cleveland and Nike are the main competitors. In golf shoes, Nike and Adidas are the main competitors. In golf gloves, Nike, Callaway and Etonic are the main competitors. Acushnet's business is seasonal and approximately 60% of its sales occur in the first half of the year and less than 20% in the fourth quarter.

The principal raw materials used in manufacturing are natural and synthetic rubbers, steel, titanium, and natural and synthetic leathers.

Acushnet's advertising and promotional campaigns rely in part on a large number of touring professionals and club professionals using and endorsing its products. The market for the endorsement and promotional services of touring professionals has been and will continue to be increasingly competitive.

There is currently a substantial market in knock-off and counterfeit golf clubs, which imitate or copy the protected

features of original equipment manufacturers' golf club products. Acushnet has an active program of enforcing intellectual property rights against those who make or sell these products.

The U.S. golf industry is highly competitive. Despite favorable demographics of an aging population (rounds of play increasing with age), rounds of play in the U.S. have decreased over the past four years and were essentially flat in 2004 as a result of a combination of decreased golf-related travel, economic conditions, lower corporate spending and weather conditions. While competitors with high inventories in the marketplace, especially for clubs, resorted to significant price discounting, Acushnet's retail inventories were not excessive and we maintained relatively strong pricing for current products. The future success of the Golf business will depend upon continued innovation and marketing across product categories.

The United States Golf Association (USGA) and the Royal and Ancient Golf Club (R&A) establish standards for golf equipment used in the United States and outside the United States, respectively. Each of the USGA and the R&A has enacted new rules restricting golf club head size and golf club shaft length, and changing the overall distance standard for golf balls. These new rules, when combined with other existing rules, could reduce the golf products industry's ability to innovate and deploy new technologies, potentially impacting our Golf business. Any new rules may provide increased opportunities to the most innovative golf equipment manufacturers.

## Office

ACCO World Corporation (ACCO) is a holding company for subsidiaries engaged in designing, developing, manufacturing and marketing a wide variety of traditional and computer-related office products, supplies, personal computer accessory products, paper-based time management products, presentation aids and label products. Approximately 50% of our office business' sales are to international markets. Products are manufactured by subsidiaries, joint ventures and licensees of ACCO, or manufactured to these subsidiaries' specifications by third party suppliers, principally in the U.S., Canada, Mexico, Western Europe, Australia, New Zealand and Asia.

ACCO Brands, Inc. (ACCO Brands), ACCO's primary U.S. operating company, manufactures and sells binders, fasteners, paper clips, punches, staples, stapling equipment and storage products, computer supplies and accessories, labels and presentation products. ACCO Canada Inc., a subsidiary of ACCO, manufactures binders and distributes in Canada a range of office products similar to that distributed by ACCO Brands in the U.S. ACCO Mexicana S.A. de C.V. manufactures binders and fasteners, and distributes in Mexico a range of

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office products similar to that distributed by ACCO Brands in the U.S. Principal office products brands include Swingline stapling and punch products, Wilson Jones binders and labels, Kensington computer accessories and supplies, Apollo and Boone presentation products and ACCO fastener products. Products are sold throughout the U.S., Canada and Mexico by in-house sales forces and independent representatives to office and computer products wholesalers, retailers/superstores, dealers, mail order companies and mass merchandisers.

Operating units of ACCO Europe PLC (ACCO Europe), another subsidiary of ACCO, manufacture and distribute a wide range of office supplies and machines, storage and retrieval filing systems and presentation products. ACCO Europe's products are sold primarily in the U.K., Ireland, Western Europe and Australia through internal sales forces and through distributors. Principal brands sold by ACCO Europe's subsidiaries include Rexel filing, stapling, binding, and laminating products, Twinlock filing products, Kensington computer accessories, Nobo presentation products and, in Australia, Marbig products.

Day-Timers, Inc. (Day-Timers), a subsidiary of ACCO, manufactures and distributes personal organizers and planners

in the U.S. Products are sold in the U.S. and Canada by Day-Timers and in Australia, New Zealand and the U.K. by subsidiaries of Day-Timers through direct mail advertising, catalogs to consumers and businesses, and electronic commerce. In addition, products are sold through ACCO Brands and ACCO Canada to retailers and mass merchandisers.

Management believes that manufacturing within the office products industry remains highly fragmented. Due to local market preferences for product design and paper sizes, many office product manufacturers supply on a country-specific basis only. Many manufacturers supply a relatively narrow range of products. ACCO's key competitors include Avery Dennison, Esselte, Newell Rubbermaid, Fellowes, Cardinal and GBC. Primary competitors for personal organizers in the North American market are Franklin Quest and Mead (including Day-Runner). In computer accessories, ACCO competes against Fellowes, Logitech, Microsoft, Targus, Belkin and others. ACCO and Kensington are also facing increasing competition from private label and customers' direct sourcing initiatives at retail. ACCO's operating companies compete on the basis of consumer knowledge, product quality, innovation, price, service and responsiveness to consumer demand preferences.

ACCO's subsidiaries purchase raw materials, components and products from a variety of sources on competitively available terms that fluctuate based on market conditions. Principal raw materials are paper, steel, plastics, melamine, electronic components and cork.

## Other Matters

### *Employees*

As of December 31, 2004, the Company and its subsidiaries had the following number of employees:

Home and Hardware	21,171
Spirits and Wine	1,284
Golf	4,910
Office	4,375
Corporate Office	111
	<hr/>
Total	31,851
	<hr/>

## Environmental Matters

The Company and its subsidiaries are subject to federal, state and local laws and regulations concerning the discharge of materials into the environment and the handling, disposal and clean-up of waste materials and otherwise relating to the protection of the environment. It is not possible to quantify with certainty the potential

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impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company's subsidiaries may undertake in the future. Management of the Company does not expect compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, to have a material adverse effect upon our capital expenditures, financial condition, results of operations or competitive position.

(d) Financial information about foreign and domestic operations and export sales.

Our subsidiaries operate in the United States, Europe (principally the U.K.) and other areas (principally Canada and Australia). See Note 18, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K. The primary risk of our investments in various foreign countries, principally the United Kingdom, as well as Australia and Canada, is to changes in the value of the currencies of these countries and the effect on our financial statements when translated into U.S. dollars.

### Web Site Access to SEC Reports

The Company's website address is [www.fortunebrands.com](http://www.fortunebrands.com). The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company's website as soon as reasonably practicable after the reports are filed or furnished electronically with the Securities and Exchange Commission.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## Item 2. Properties.

The Company leases principal executive offices in Lincolnshire, Illinois. The following table indicates the principal properties of the Company and its subsidiaries:

Segment	Manufacturing Plants		Distribution Centers		Warehouses		Other	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
Home and Hardware								
U.S.	33	3	1	13	1	8	2	5
Canada	2	2		2		4		1
Mexico	4			1				
Guatemala				1				
Europe	1	2						1
Asia	1							
Spirits and Wine								
U.S.	7		2		9		7	4
Europe								1
Canada	1				1		1	
Australia								1
Golf								
U.S.	5	1	1	2			3	5
Europe			1	3				8
Canada				1				

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Asia	2	3	1	7				5
Office								
U.S.	1	5	1					2
Europe	5		2	4				1
Canada		1						
Mexico	2							
Australia	1							
New Zealand			1					
Corporate								
U.S.								1
Asia						2		3
	—	—	—	—	—	—	—	—
Total U.S.	46	9	5	15	10	8	12	17
	—	—	—	—	—	—	—	—
Total Non-U.S.	19	8	5	19	1	6	1	21
	—	—	—	—	—	—	—	—
TOTAL	65	17	10	34	11	14	13	38
	—	—	—	—	—	—	—	—

We are of the opinion that the properties are suitable to our respective businesses and have production capacities adequate to meet the needs of our businesses.

### Item 3. Legal Proceedings.

#### Tobacco Overview

On December 22, 1994, the Company sold The American Tobacco Company ( ATCO ) to Brown & Williamson Tobacco Corporation ( B&W ), at the time a wholly owned subsidiary of B.A.T Industries p.l.c. In connection with the sale, B&W and ATCO, which subsequently merged into B&W, agreed, under an Indemnification

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Agreement, to indemnify the Company against claims including legal expenses arising from smoking and health and fire safe cigarette matters relating to the tobacco business of ATCO.

On July 30, 2004, B&W and R.J. Reynolds Tobacco Holdings, Inc. announced that they had completed the combination of their respective U.S. tobacco businesses, previously conducted by B&W (and ATCO) and R.J. Reynolds Tobacco Co., by forming a new combined company known as R.J. Reynolds Tobacco Company. As a result of the combination and in accordance with the Indemnification Agreement, the new R.J. Reynolds Tobacco Company has assumed the indemnification obligations under the Indemnification Agreement relating to the U.S. business previously conducted by B&W (and ATCO). B&W has not been released from any of its obligations under the Indemnification Agreement. We refer to B&W and the new R.J. Reynolds Tobacco Company as the Indemnitor under the Indemnification Agreement.

The Indemnitor has complied with the terms of the indemnification agreement since 1994 and the Company is not aware of any inability on the part of the Indemnitor to satisfy its indemnitor obligations.

Numerous legal actions, proceedings and claims are pending in various jurisdictions against leading tobacco manufacturers, including B&W both individually and as successor by merger to ATCO, based upon allegations that cancer and other ailments have resulted from tobacco use. The Company has been named as a defendant in some of these cases. These claims have generally fallen within three categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs, (ii) smoking and health cases alleging personal injury and other damages and purporting to be brought on behalf of classes of individual plaintiffs, and (iii) health care cost recovery cases, including class actions, brought by foreign governments, unions, health trusts, taxpayers and others seeking reimbursement for health care expenditures allegedly caused by cigarette smoking. Damages claimed in some of the cases range into the billions of dollars.

### **Individual Cases**

As of February 10, 2005, there were approximately 19 smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants, compared with approximately 26 such cases as of February 17, 2004. See [List of Pending Cases](#) below.

### **Class Actions**

As of February 10, 2005, there were approximately five purported smoking and health class actions pending in which the Company has been named as one of the defendants compared with approximately six such cases as of February 17, 2004. See [List of Pending Cases](#) below.

### **Health Care Cost Recovery Actions**

As of February 10, 2005, there was one health care recovery action pending in which the Company has been named as one of the defendants, compared with one such case as of February 17, 2004. See [List of Pending Cases](#) below.

### **Certain Developments Affecting the Indemnitor**

On July 14, 2000, in *Engle v. R.J. Reynolds Tobacco Company, et. al.*, a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of \$144.87 billion in punitive damages against the defendants, including \$17.59 billion against B&W. On November 6, 2000, Florida Circuit Judge Robert Kaye upheld this jury award, and held that the class of plaintiffs eligible to recover damages should be extended to smokers with illnesses diagnosed more than four years

before the lawsuit was filed in 1994. On May 21, 2003, a Florida appellate court reversed the jury's verdict and damages award and decertified the class. The Company is not a party to the Engle litigation.

In September 1999, the United States government filed a recoupment lawsuit in Federal Court in Washington, D.C. against the leading tobacco manufacturers (including B&W individually and as a successor to ATCO) seeking recovery of costs paid by the Federal government for claimed smoking-related illness. In this action, the U.S. District Court for the District of Columbia has dismissed certain counts of the lawsuit, but has also ruled that the government may proceed with two counts under the federal RICO statute. On February 4, 2005, the U.S. Circuit Court of Appeals for the District of Columbia held that the government may not, however, seek a disgorgement of defendants' profits from the sale of tobacco as a part of its RICO claim. The trial began on September 15, 2004 with respect to all remaining claims and is ongoing. The Company is not a party to this action.

On March 21, 2003, a judgment for \$7.1 billion in compensatory and \$3 billion in punitive damages was entered by an Illinois state court against Philip Morris, Inc. in *Price, et al. v. Philip Morris, Inc.*, a class action alleging that certain advertising for light or low tar cigarettes was deceptive under the Illinois Consumer Fraud Act. Class actions involving similar allegations (*Howard, et al. v. Brown & Williamson Tobacco Corp.* and *Turner v. R.J. Reynolds Tobacco Co.*) are pending against B&W and R.J. Reynolds Tobacco, respectively, in the same court. Trials in the Howard and Turner cases have been stayed pending appeal by Philip Morris in *Price*. The Company is not a party to the *Price*, Howard or Turner litigation.

#### **Resolution of Health Care Cost Recovery Actions by State, U.S. Territories and the District of Columbia**

In 1998, certain U.S. tobacco companies, including B&W, entered into a Master Settlement Agreement (the "MSA") with certain state attorneys general that resulted in the dismissal of all remaining health care reimbursement lawsuits brought by 52 government entities, including 46 States, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands and the District of Columbia. Although the Company is not a party to the MSA and is not bound by any of its payment obligations or other restrictions, the Company understands that it is a released party under the terms of the MSA, which provides for the release of claims not only against participating manufacturers, but also against their predecessors, successors, and past, present and future affiliates.

Under the MSA, participating manufacturers were required to make initial payments through 2003, with additional payments to the settling parties required to continue in perpetuity (starting at \$4.5 billion in 2000 and increasing to \$9 billion in 2018 and thereafter). Payments to a strategic contribution fund for individual states beginning in 2008 through 2017, and a public health foundation until 2008, are also required. Ongoing payments are to be allocated according to market share and are subject to various credits and adjustments, depending on industry volume. The MSA also calls for the participating manufacturers to pay attorneys' fees for the States' attorneys in the settled litigation.

Prior to the MSA, health care cost recovery actions filed by the states of Minnesota, Texas, Florida and Mississippi were settled separately on terms which included monetary payments of several billion dollars. The Company was not a party to the Minnesota or Texas action and was voluntarily dismissed from the Florida and Mississippi actions. The Company is not a party to any of these settlements nor is it required to pay any money under these settlements.

#### **List of Pending Cases**

For a list of pending tobacco-related cases, see Exhibit 99 to this Form 10-K.

#### **List of Terminated Cases**

For a list of terminated tobacco-related cases, see Exhibit 99.1 to this Form 10-K.

#### **Conclusion**

It is not possible to predict the outcome of the pending litigation, and it i