

FORTUNE BRANDS INC
Form 10-Q
November 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

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)

520 Lake Cook Road, Deerfield, Illinois 60015-5611

(Address of principal executive offices) (Zip Code)

13-3295276
(I.R.S. Employer

Identification No.)

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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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The number of shares outstanding of the registrant's common stock, par value \$3.125 per share, at October 31, 2006 was 151,384,377.

PART I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS.****FORTUNE BRANDS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEET**

(in millions)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 218.5	\$ 93.6
Accounts receivable, net	1,267.4	1,115.6
Inventories		
Maturing spirits and wine	1,105.9	889.3
Other raw materials, supplies and work in process	434.5	301.5
Finished products	570.9	472.3
	2,111.3	1,663.1
Other current assets	382.0	320.4
Total current assets	3,979.2	3,192.7
Property, plant and equipment, net	1,926.1	1,679.6
Goodwill resulting from business acquisitions	4,187.4	3,633.5
Other intangible assets resulting from business acquisitions, net	4,063.8	3,247.0
Investments in unconsolidated subsidiaries	80.7	1,173.9
Other assets	318.3	274.8
Total assets	\$ 14,555.5	\$ 13,201.5

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEET**

(in millions, except per share amounts)

	September 30, 2006 (Unaudited)	December 31, 2005
Liabilities and stockholders' equity		
Current liabilities		
Notes payable to banks	\$ 17.3	\$ 20.5
Commercial paper	749.7	616.7
Current portion of long-term debt	301.0	296.9
Accounts payable	422.9	684.9
Accrued taxes	402.1	199.9
Accrued customer programs	158.2	164.9
Accrued salaries, wages and other compensation	162.7	160.2
Accrued expenses and other liabilities	699.9	673.9
Total current liabilities	2,913.8	2,817.9
Long-term debt	5,037.8	4,889.9
Deferred income	99.0	119.2
Deferred income taxes	1,013.4	877.2
Other liabilities	504.9	476.9
Total liabilities	9,568.9	9,181.1
Minority interest in consolidated subsidiaries	561.4	374.8
Stockholders' equity		
\$2.67 Convertible Preferred stock, redeemable at Company's option	6.3	6.6
Common stock, par value \$3.125 per share, 229.6 shares issued	734.0	717.4
Paid-in capital	590.6	182.8
Accumulated other comprehensive income (loss)	44.8	(22.2)
Retained earnings	6,238.9	5,890.2
Treasury stock, at cost	(3,189.4)	(3,129.2)
Total stockholders' equity	\$ 4,425.2	3,645.6
Total liabilities and stockholders' equity	\$ 14,555.5	\$ 13,201.5

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Nine Months Ended September 30, 2006 and 2005

(in millions, except per share amounts)

(Unaudited)

	2006	2005
Net sales	\$ 6,492.4	\$ 5,102.2
Cost of products sold	3,468.4	2,782.8
Excise tax duties on spirits and wine	336.0	222.0
Advertising, selling, general and administrative expenses	1,530.6	1,213.8
Amortization of intangibles	31.5	25.0
Restructuring charges	5.9	
Operating income	1,120.0	858.6
Interest expense	247.9	91.3
Other (income) expense, net	(29.9)	87.3
Income from continuing operations before income taxes and minority interests	902.0	680.0
Income taxes	267.3	262.0
Minority interests	62.2	12.3
Income from continuing operations	572.5	405.7
Income from discontinued operations		39.5
Net income	\$ 572.5	\$ 445.2
Earnings per common share		
Basic		
Continuing operations	\$ 3.86	\$ 2.79
Discontinued operations		0.27
Net earnings	\$ 3.86	\$ 3.06
Diluted		
Continuing operations	\$ 3.76	\$ 2.70
Discontinued operations		0.26
Net earnings	\$ 3.76	\$ 2.96
Dividends paid per common share	\$ 1.11	\$ 1.02
Average number of common shares outstanding		
Basic	148.3	145.4
Diluted	152.1	150.4

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Three Months Ended September 30, 2006 and 2005

(in millions, except per share amounts)

(Unaudited)

	2006	2005
Net sales	\$ 2,218.5	\$ 1,801.6
Cost of products sold	1,199.4	986.3
Excise tax duties on spirits and wine	111.6	85.9
Advertising, selling, general and administrative expenses	513.7	426.3
Amortization of intangibles	12.4	8.6
Restructuring charges	1.9	
Operating income	379.5	294.5
Interest expense	85.6	52.1
Other (income) expense, net	(9.8)	73.5
Income from continuing operations before income taxes and minority interests	303.7	168.9
Income taxes	99.0	86.3
Minority interests	53.4	3.3
Income from continuing operations	151.3	79.3
Income from discontinued operations		12.9
Net income	\$ 151.3	\$ 92.2
Earnings per common share		
Basic		
Continuing operations	\$ 1.00	\$ 0.54
Discontinued operations		0.09
Net earnings	\$ 1.00	\$ 0.63
Diluted		
Continuing operations	\$ 0.98	\$ 0.52
Discontinued operations		0.09
Net earnings	\$ 0.98	\$ 0.61
Dividends paid per common share	\$ 0.39	\$ 0.36
Average number of common shares outstanding		
Basic	150.9	146.0
Diluted	154.5	151.1

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, 2006 and 2005

(in millions)

(Unaudited)

	2006	2005
Operating activities		
Net income	\$ 572.5	\$ 445.2
Restructuring charges	4.5	
Depreciation and amortization	192.7	169.1
Stock-based compensation	27.0	
Deferred income taxes	(130.1)	(9.4)
Currency hedge expense		120.9
Changes in assets and liabilities including effects subsequent to acquisitions:		
Decrease (increase) in accounts receivable	112.2	(7.2)
Increase in inventories	(140.3)	(17.6)
Decrease in accounts payable	(76.6)	(1.0)
Increase (decrease) in accrued expenses and other liabilities	58.1	(97.5)
Increase in accrued taxes	5.5	20.4
Tax benefit on exercise of stock options		23.1
Other operating activities, net	(22.0)	(41.9)
Net cash provided by operating activities	603.5	604.1
Investing activities		
Additions to property, plant and equipment	(165.0)	(157.0)
Proceeds from the disposition of property, plant and equipment	75.6	6.7
Acquisitions, net of cash acquired	(592.9)	(4,911.8)
Currency hedge expense related to the spirits and wine acquisition purchase price		(120.9)
Dividend from the spin-off of ACCO World Corporation		613.3
Other investing activities, net		(5.3)
Net cash used by investing activities	(682.3)	(4,575.0)
Financing activities		
(Decrease) increase in short-term debt and commercial paper, net	(2,617.2)	4,093.2
Issuance of long-term debt	2,939.9	
Repayment of long-term debt	(148.9)	(0.3)
Dividends paid to stockholders	(164.7)	(148.8)
Proceeds received from exercise of stock options	31.6	65.9
Tax benefit on exercise of stock options	4.2	
Proceeds from the sale of subsidiary preferred stock	153.0	
Other financing activities, net	(2.5)	(8.5)
Net cash provided by financing activities	195.4	4,001.5
Effect of foreign exchange rate changes on cash	8.3	