FORTUNE BRANDS INC
Form 10-Q
August 06, 2010

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 June 30, 2010

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	**13-3295276**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
520 Lake Cook Road, Deerfield, Illinois	**60015-5611**
(Address of principal executive offices)	**(Zip Code)**

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock, par value $3.125 per share, at July 31, 2010 was 152,358,261.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 416.3	$ 417.2
Accounts receivable, net	1,014.8	949.0
Inventories		
Maturing spirits	1,188.7	1,243.0
Other raw materials, supplies and work in process	319.4	322.7
Finished products	452.7	450.9
	1,960.8	2,016.6
Other current assets	471.8	488.9
Total current assets	3,863.7	3,871.7
Property, plant and equipment	3,068.8	3,059.6
Less: accumulated depreciation	1,662.3	1,591.7
Property, plant and equipment, net	1,406.5	1,467.9
Goodwill resulting from business acquisitions	3,545.4	3,576.5
Other intangible assets resulting from business acquisitions, net	3,002.5	3,188.4
Other assets	245.9	266.1
Total assets	$ 12,064.0	$ 12,370.6

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except per share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009
Liabilities and equity		
Current liabilities		
Notes payable to banks	$ 53.0	$ 51.3
Current portion of long-term debt	594.3	
Accounts payable	466.1	468.5
Other current liabilities	824.0	943.8
Total current liabilities	1,937.4	1,463.6
Long-term debt	3,580.6	4,413.3
Deferred income taxes	677.5	642.9
Accrued pension and postretirement benefits	341.4	451.3
Other non-current liabilities	236.1	293.8
Total liabilities	6,773.0	7,264.9
Equity		
Fortune Brands stockholders equity		
$2.67 Convertible Preferred stock redeemable at Company s option	5.0	5.2
Common stock, par value $3.125 per share, 234.9 shares issued	734.0	734.0
Paid-in capital	789.5	755.6
Accumulated other comprehensive loss	(377.9)	(211.8)
Retained earnings	7,373.6	7,135.4
Treasury stock, at cost	(3,248.9)	(3,326.0)
Total Fortune Brands stockholders equity	5,275.3	5,092.4
Noncontrolling interests	15.7	13.3
Total equity	5,291.0	5,105.7
Total liabilities and equity	$ 12,064.0	$ 12,370.6

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June 30, 2010 and 2009

(in millions, except per share amounts)

(Unaudited)

	2010	2009
Net sales	$ 3,524.0	$ 3,179.7
Cost of products sold	1,819.2	1,701.7
Excise taxes on spirits	254.4	224.7
Advertising, selling, general and administrative expenses	1,014.4	937.5
Amortization of intangible assets	16.7	16.7
Restructuring charges	0.9	45.7
Gain on sale of brands and related assets	(11.5)	
Operating income	429.9	253.4
Interest expense	108.7	105.9
Other (income) expense, net	(20.8)	14.1
Income before income taxes	342.0	133.4
Income taxes	38.2	23.9
Net income	303.8	109.5
Less: Noncontrolling interests	4.2	2.3
Net income attributable to Fortune Brands	$ 299.6	$ 107.2
Earnings per common share attributable to Fortune Brands common shareholders		
Basic	$ 1.97	$ 0.71
Diluted	$ 1.95	$ 0.71
Dividends paid per common share	$ 0.38	$ 0.63
Average number of common shares outstanding		
Basic	152.0	150.2
Diluted	153.6	151.5

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Three Months Ended June 30, 2010 and 2009

(in millions, except per share amounts)

(Unaudited)

	2010	2009
Net sales	$ 1,898.9	$ 1,740.8
Cost of products sold	979.3	914.8
Excise taxes on spirits	128.0	123.6
Advertising, selling, general and administrative expenses	521.5	491.9
Amortization of intangible assets	8.3	8.4
Restructuring charges	(0.2)	9.2
Gain on sale of brands and related assets	(11.5)	
Operating income	273.5	192.9
Interest expense	53.5	53.4
Other (income) expense, net	(18.8)	9.6
Income before income taxes	238.8	129.9
Income taxes	9.4	29.3
Net income	229.4	100.6
Less: Noncontrolling interests	2.0	0.8
Net income attributable to Fortune Brands	$ 227.4	$ 99.8
Earnings per common share attributable to Fortune Brands common shareholders		
Basic	$ 1.49	$ 0.66
Diluted	$ 1.48	$ 0.66
Dividends paid per common share	$ 0.19	$ 0.19
Average number of common shares outstanding		
Basic	152.5	150.2
Diluted	154.1	151.6

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2010 and 2009

(in millions)

(Unaudited)

	2010	2009
Operating activities		
Net income	$ 303.8	$ 109.5
Non-cash pre-tax expense (income):		
Restructuring charges	(0.3)	9.0
Depreciation	102.4	114.8
Amortization	18.1	18.0
Stock-based compensation	29.1	20.1
Deferred income taxes	37.2	(17.7)
Tax benefit from income tax audit settlements	(42.3)	
Gain on the sale of brands and related assets	(15.1)	
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(121.6)	6.2
(Increase) decrease in inventories	(64.4)	61.5
Increase in accounts payable	8.7	24.1
Decrease in accrued expenses and other liabilities	(148.1)	(129.3)
Increase (decrease) in accrued taxes	43.7	(1.3)
Other operating activities, net	50.0	17.1
Net cash provided by operating activities	201.2	232.0
Investing activities		
Capital expenditures	(68.9)	(57.9)
Proceeds from the disposition of assets	91.1	8.5
Acquisitions, net of cash acquired		(77.6)
Investments in affiliates		(41.7)
Return of investment in affiliates		37.6
Loans to affiliates	7.6	19.7
Net cash provided (used) by investing activities	29.8	(111.4)
Financing activities		
Increase in short-term debt	7.5	4.4
Issuance of long-term debt		896.1
Repayment of long-term debt	(166.5)	(849.4)
Dividends to stockholders	(58.0)	(94.9)
Proceeds received from exercise of stock options	8.8	3.4
Tax benefit on exercise of stock options	1.7	0.3
Dividends paid to noncontrolling interests	(1.8)	
Other financing, net	(6.9)	
Net cash used by financing activities	(215.2)	(40.1)
Effect of foreign exchange rate changes on cash	(16.7)	20.8

Net (decrease) increase in cash and cash equivalents	$ (0.9)	$ 101.3
Cash and cash equivalents at beginning of period	$ 417.2	$ 163.3
Cash and cash equivalents at end of period	$ 416.3	$ 264.6

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2010 and 2009

(in millions, except per share amounts)

(Unaudited)

	Fortune Brands, Inc. Stockholders Equity							
	Convertible Preferred Stock	**Common Stock**	**Paid-in Capital**	**AOCI [(1)]**	**Retained Earnings**	**Treasury Stock, At Cost**	**Non-controlling Interest**	**Total**
Balance at December 31, 2008	$ 5.5	$ 734.0	$ 716.4	$ (478.4)	$ 7,046.2	$ (3,337.7)	$ 13.6	$ 4,699.6
Comprehensive income								
Net income					107.2		2.3	109.5
Translation adjustments				183.3				183.3
Derivative instruments				(37.8)				(37.8)
Pension and postretirement benefit adjustments				22.5				22.5
Total comprehensive income				168.0	107.2		2.3	277.5
Dividends paid to noncontrolling interests							(2.8)	(2.8)
Dividends ($0.63 per Common share and $1.335 per Preferred share)					(94.9)			(94.9)
Stock-based compensation			19.6		(0.9)	5.3		24.0
Tax benefit on exercise of stock options			0.3					0.3
Conversion of preferred stock (<0.1 shares)	(0.1)		(0.3)			0.4		
Balance at June 30, 2009	$ 5.4	$ 734.0	$ 736.0	$ (310.4)	$ 7,057.6	$ (3,332.0)	$ 13.1	$ 4,903.7
Balance at December 31, 2009	$ 5.2	$ 734.0	$ 755.6	$ (211.8)	$ 7,135.4	$ (3,326.0)	$ 13.3	$ 5,105.7
Comprehensive income								
Net income					299.6		4.2	303.8
Translation adjustments				(192.6)				(192.6)
Derivative instruments				11.9				11.9
Pension and postretirement benefit adjustments				14.6				14.6
Total comprehensive income				(166.1)	299.6		4.2	137.7
Dividends paid to noncontrolling interests							(1.8)	(1.8)
Dividends ($0.38 per Common share and $1.335 per Preferred share)					(58.0)			(58.0)
Shares issued from treasury stock for benefit plans			6.4			61.4		67.8
Stock-based compensation			27.0		(3.4)	14.2		37.8
Tax benefit on exercise of stock options			1.8					1.8
Conversion of preferred stock (0.2 shares)	(0.2)		(1.3)			1.5		
Balance at June 30, 2010	$ 5.0	$ 734.0	$ 789.5	$ (377.9)	$ 7,373.6	$ (3,248.9)	$ 15.7	$ 5,291.0

(1) Accumulated other comprehensive income (loss)

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Principles of Consolidation

References to we, our, us, Fortune Brands and the Company refer to Fortune Brands, Inc. and its consolidated subsidiaries as a whole, unless context otherwise requires.

The condensed consolidated balance sheet as of June 30, 2010, the related condensed consolidated statements of income for the six-month and three-month periods ended June 30, 2010 and 2009 and the related condensed consolidated statements of cash flows and stockholders equity for the six-month periods ended June 30, 2010 and 2009 are unaudited. In the opinion of management, all adjustments necessary for a fair statement of the financial statements have been included. Interim results may not be indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in our annual consolidated financial statements and notes. The year-end condensed consolidated balance sheet was derived from the audited financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP). This Form 10-Q should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

2. Recently Issued Accounting Standards

Consolidation of Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) amended the existing authoritative guidance on variable interest entities (Accounting Standards Codification (ASC) 810). This new authoritative guidance a) includes a new approach for determining when a variable interest entity (VIE) should be consolidated and b) changes when it is necessary to reassess who should consolidate a VIE. The new approach requires an enterprise to qualitatively assess the determination of the primary beneficiary (consolidator). The amendment is effective for interim and annual reporting periods beginning after November 15, 2009 (calendar year 2010 for Fortune Brands). Adoption of this standard did not have an impact on our financial statements and disclosures.

Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued Accounting Standards Update 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force. This guidance allows entities to allocate consideration in multiple deliverable arrangements in a manner that reflects a transaction s economics. The guidance requires expanded disclosure. It is effective for fiscal years beginning on or after June 15, 2010 (calendar year 2011 for Fortune Brands) and can be applied either prospectively or retrospectively. We do not believe that adoption of this standard will have a material impact on our financial statements and disclosures.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisition

In April 2009, we paid 49.9 million (approximately $66.2 million, net of cash acquired) to purchase 100% interests in seven subsidiaries of Maxxium Worldwide B.V. (Maxxium), our former international spirits sales and distribution joint venture, that were previously 50% owned equity investments. These acquisitions were accounted for using the purchase method in accordance with authoritative guidance on business combinations (ASC 805). In addition, we paid 30.9 million (approximately $41.7 million) to acquire 50% ownership in five alliance joint venture entities with The Edrington Group (TEG), our Maxxium joint venture partner. These entities are accounted for under the equity method.

In June 2009, the Spirits business acquired the EFFEN super-premium vodka brand and related assets from Sazerac Company, Inc. In conjunction with this transaction, we sold the Old Taylor whiskey brand and assets to Sazerac Company, Inc. The acquisition has been included in our consolidated results from the date of acquisition. The acquisition was not material for the purposes of supplemental disclosure in accordance with authoritative guidance on business combinations (ASC 805). The acquisition and divestiture did not have a material impact on our consolidated financial statements.

4. Disposition

In April 2010, we sold our Cobra golf product line to PUMA AG for $88.9 million. The asset sale included the Cobra golf brand and related inventory, intellectual property and endorsement contracts. The sale resulted in a pre-tax gain of $11.5 million ($10.4 million after tax). We may receive additional consideration related to the achievement by Cobra of specific sales targets in 2010 or 2011. In 2009, Cobra net sales were approximately $130 million.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and Other Identifiable Intangible Assets

We had goodwill of $3,545.4 million as of June 30, 2010. The change in the net carrying amount of goodwill by segment was as follows:

(in millions)	Spirits	Home and Security	Golf	Total goodwill
Balance at December 31, 2009				
Goodwill	$ 2,112.0	$ 1,904.0	$ 11.8	$ 4,027.8
Accumulated impairment losses		(451.3)		(451.3)
Total goodwill, net	$ 2,112.0	$ 1,452.7	$ 11.8	$ 3,576.5
Year-to-date activity				
Translation adjustments	(38.0)	0.7		(37.3)
Acquisition-related adjustments	7.4			7.4
Dispositions			(1.2)	(1.2)
Balance at June 30, 2010				
Goodwill	$ 2,081.4	$ 1,904.7	$ 10.6	$ 3,996.7
Accumulated impairment losses		(451.3)		(451.3)
Total goodwill, net	$ 2,081.4	$ 1,453.4	$ 10.6	$ 3,545.4

We also had indefinite-lived intangible assets, principally tradenames, of $2,481.5 million and $2,623.1 million as of June 30, 2010 and December 31, 2009, respectively. The decrease of $141.6 million was due to changes in foreign currency translation adjustments ($76.8 million) and the disposition of the Cobra golf product line ($64.8 million).

Amortizable identifiable intangible assets, principally tradenames, are subject to amortization over their estimated useful life, 5 to 30 years, based on the assessment of a number of factors that may impact useful life. These factors include historical and tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, financial results and other relevant factors. The gross carrying value and accumulated amortization of amortizable intangible assets were $900.4 million and $379.4 million, respectively, as of June 30, 2010, compared to $932.1 million and $366.8 million, respectively, as of December 31, 2009. The gross carrying value decrease of $31.7 million was primarily due to changes in foreign currency translation adjustments.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and Other Identifiable Intangible Assets (Continued)

The gross carrying value and accumulated amortization by class of intangible assets as of June 30, 2010 and December 31, 2009 were as follows:

	As of June 30, 2010			As of December 31, 2009		
(in millions)	**Gross Carrying Amounts**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amounts**	**Accumulated Amortization**	**Net Book Value**
Indefinite-lived tradenames	$ 2,536.4	$ (54.9)[1]	$ 2,481.5	$ 2,695.1	$ (72.0)[1]	$ 2,623.1
Amortizable intangible assets						
Tradenames	540.1	(182.2)	357.9	572.3	(179.8)	392.5
Customer and contractual relationships	274.5	(148.4)	126.1	274.0	(140.9)	133.1
Patents/proprietary technology	40.5	(32.1)	8.4	40.5	(31.0)	9.5
Licenses and other	45.3	(16.7)	28.6	45.3	(15.1)	30.2
Total	900.4	(379.4)	521.0	932.1	(366.8)	565.3
Total identifiable intangibles	$ 3,436.8	$ (434.3)	$ 3,002.5	$ 3,627.2	$ (438.8)	$ 3,188.4

(1) Accumulated amortization prior to the adoption of revised authoritative guidance on goodwill and other intangibles assets (ASC 350).

Indefinite-lived tradenames as of June 30, 2010 were comprised of $1,815.9 million in the Spirits segment, $663.7 million in the Home and Security segment and $1.9 million in the Golf segment.

The Company cannot predict the occurrence of certain events that might adversely affect the carrying value of goodwill and other intangible assets. Such events may include, but are not limited to, the impact of the economic environment; a material negative change in relationships with significant customers; or strategic decisions made in response to economic and competitive conditions.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

Our effective income tax rates for the six months ended June 30, 2010 and 2009 were 11.2% and 17.9%, respectively. The effective tax rate in 2010 was favorably impacted by a $42.0 million tax benefit related to final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of indemnification income received in connection with the settlement of the Spanish income tax audit. The effective tax rate in 2010 was unfavorably impacted by a higher proportion of domestic income in 2010, which is taxed at a higher rate relative to foreign income. Our effective income tax rate in 2009 was favorably impacted by tax benefits from restructuring and other charges relative to the lower taxed income before these charges.

Our effective income tax rates for the three months ended June 30, 2010 and 2009 were 3.9% and 22.6%, respectively. The effective tax rate in 2010 was favorably impacted by a $42.0 million tax benefit related to final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of the indemnification proceeds received in connection with the settlement of the Spanish income tax audit mentioned above. The 2010 effective tax rate was unfavorably impacted by a higher proportion of domestic income in 2010, which is taxed at a higher rate relative to foreign income.

During the second quarter of 2010, the Spanish tax authorities concluded their routine examination of our Spanish spirits companies, which included the spirits and wine brands as well as certain distribution assets acquired from Pernod Ricard S.A. (Pernod Ricard) in July 2005. Pursuant to the acquisition agreement, Pernod Ricard indemnified the Company for pre-acquisition income tax contingencies and liabilities. The tax returns that were subject to examination included the 2004 through 2006 periods, and the majority of the audit assessment related to pre-acquisition issues. The Spanish tax authorities issued a net assessment of approximately $29.3 million ($22.9 million for tax and $6.4 million for related interest and penalties), which was paid in July 2010. Pursuant to the acquisition agreement, we negotiated and received a tax indemnification payment from Pernod Ricard related to the above assessment and recorded other (income) expense, net of $25.6 million related to the finalization of the income tax indemnification on these matters.

Also during the second quarter of 2010, the Internal Revenue Service (IRS) concluded its routine examination of the Company s 2006 and 2007 tax years.

As a result of the conclusion of the above-mentioned audit examinations, during the second quarter of 2010, we recorded approximately $42.0 million of previously unrecognized tax benefits (net of current and deferred taxes) into net income.

It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease in the range of $30 to $40 million, primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Information on Business Segments

Net sales and operating income (loss) for the six months ended June 30, 2010 and 2009 by segment were as follows:

(in millions)	Six Months Ended June 30, 2010	2009	% Change vs. Prior Year
Net Sales			
Spirits	$ 1,204.6	$ 1,086.3	10.9%
Home and Security	1,576.5	1,380.6	14.2
Golf	742.9	712.8	4.2
Net Sales	$ 3,524.0	$ 3,179.7	10.8%
Operating Income (Loss)			
Spirits	$ 261.1	$ 268.9	(2.9)%
Home and Security	105.0	(18.9)	
Golf	109.8	52.6	108.7
Corporate expenses	(46.0)	(49.2)	6.5
Operating Income	$ 429.9	$ 253.4	69.7%

Net sales and operating income for the three months ended June 30, 2010 and 2009 by segment were as follows:

(in millions)	Three Months Ended June 30, 2010	2009	% Change vs. Prior Year
Net Sales			
Spirits	$ 631.5	$ 600.0	5.3%
Home and Security	878.1	775.0	13.3
Golf	389.3	365.8	6.4
Net Sales	$ 1,898.9	$ 1,740.8	9.1%
Operating Income			
Spirits	$ 146.0	$ 140.3	4.1%
Home and Security	82.6	36.0	129.4
Golf	65.4	43.6	50.0
Corporate expenses	(20.5)	(27.0)	24.1
Operating Income	$ 273.5	$ 192.9	41.8%

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Earnings Per Share

The computation of basic and diluted earnings per common share (EPS) is as follows:

(in millions, except for per share amounts)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net income attributable to Fortune Brands	$ 299.6	$ 107.2	$ 227.4	$ 99.8
Less: Preferred stock dividends	0.2	0.2	0.1	0.1
Income attributable to Fortune Brands common stockholders basic	299.4	107.0	227.3	99.7
Convertible Preferred stock dividends	0.2	0.2	0.1	0.1
Income attributable to Fortune Brands common stockholders diluted	$ 299.6	$ 107.2	$ 227.4	$ 99.8
Weighted average number of common shares outstanding basic	152.0	150.2	152.5	150.2
Conversion of Convertible Preferred stock	1.1	1.2	1.1	1.2
Exercise of share-based awards	0.5	0.1	0.5	0.2
Weighted average number of common shares outstanding diluted	153.6	151.5	154.1	151.6
Antidilutive stock-based awards excluded from weighted average number of common shares outstanding for diluted EPS	16.4	14.3	17.1	14.0
Earnings per common share attributable to Fortune Brands common shareholders				
Basic	$ 1.97	$ 0.71	$ 1.49	$ 0.66
Diluted	$ 1.95	$ 0.71	$ 1.48	$ 0.66

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Pension and Other Retiree Benefits

The components of net periodic benefit cost for pension and postretirement benefits for the six months ended June 30, 2010 and 2009 were as follows:

	Six Months Ended June 30,			
	Pension Benefits		Postretirement Benefits	
(in millions)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 14.7	$ 13.7	$ 1.0	$ 1.2
Interest cost	31.9	31.3	3.3	4.0
Expected return on plan assets	(40.3)	(37.7)		
Amortization of prior service cost (credit)	1.2	1.3	(2.0)	(0.5)
Amortization of net losses (gains)	10.8	6.6	(0.3)	(0.7)
Curtailment and settlement losses (gains)	0.2	8.3		(0.1)
Net periodic benefit cost	$ 18.5	$ 23.5	$ 2.0	$ 3.9

Curtailment losses in 2009 related to the downsizing or closure of facilities in the Home and Security business. The settlement loss related to retirement of an executive officer.

The components of net periodic benefit cost for pension and postretirement benefits for the three months ended June 30, 2010 and 2009 were as follows:

	Three Months Ended June 30,			
	Pension Benefits		Postretirement Benefits	
(in millions)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 7.1	$ 5.7	$ 0.4	$ 0.5
Interest cost	15.8	15.5	1.5	1.6
Expected return on plan assets	(20.0)	(18.7)		
Amortization of prior service cost (credit)	0.6	0.7	(1.1)	(0.2)
Amortization of net losses (gains)	5.2	2.9	(0.3)	(0.8)
Curtailment and settlement losses (gains)	0.1	7.1		(0.1)
Net periodic benefit cost	$ 8.8	$ 13.2	$ 0.5	$ 1.0

On February 3, 2010, we made a voluntary contribution to our U.S. defined benefit pension plans of 1.56 million shares of our common stock, previously held as treasury stock, with a fair value of $67.9 million.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt and Financing Arrangements

On February 3, 2010, we executed a $750 million, 3-year committed revolving credit agreement to be used for general corporate purposes. As of June 30, 2010, this facility had no balance outstanding. This credit facility replaced our prior $2.0 billion, 5-year committed revolving credit agreement. The interest rates under this credit facility are variable based on LIBOR at the time of the borrowing and the Company s long-term credit rating. The credit facility includes a minimum Consolidated Interest Coverage Ratio requirement of 3.0 to 1.0 through 2011 and 3.5 to 1.0 in 2012. The Consolidated Interest Coverage Ratio is defined as the ratio of adjusted EBITDA to Consolidated Interest Expense. Adjusted EBITDA is defined as consolidated net income before interest expense, income taxes, and depreciation and amortization of intangible assets, as well as noncash restructuring and nonrecurring charges, losses from asset impairments, and gains or losses resulting from the sale of assets not in the ordinary course of business. Consolidated Interest Expense is as disclosed in the financial statements. The credit facility also includes a maximum debt to total capital ratio of 0.55 to 1.0. Total capital is defined as debt plus equity and deferred taxes less any future impairment charges. No other debt instruments include financial ratio covenants.

During the second quarter of 2010, we repurchased outstanding notes that mature on January 15, 2011 with a face value of $159.4 million. A loss on the repurchase of $4.4 million was recognized in other (income) expense, net.

11. Financial Instruments

Derivative financial instruments are either foreign exchange contracts recorded at fair value to hedge currency fluctuations for transactions denominated in foreign currencies, interest rate swaps or commodity swaps of forecasted commodity purchases. Deferred compensation programs assets and liabilities are for programs where select employees can defer compensation until death, disability or other termination of employment.

We do not enter into financial instruments for trading or speculative purposes. Financial instruments are principally used to reduce the impact of changes in foreign currency exchange rates, interest rates and commodities used as raw materials in our products. The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. In addition, from time to time, we enter into interest rate swaps and commodity swaps.

We have entered into fixed to floating interest rate swaps with an aggregate notional principal amount of $900 million as of June 30, 2010. These swap agreements hedge changes in the fair value of a portion of our existing fixed rate debt that result from changes in a benchmark interest rate (U.S. LIBOR). The swap agreements were designated and classified as fair value hedges in accordance with the authoritative guidance on derivatives and hedging (ASC 815). The unrealized gain on interest rate swap contracts and the offsetting unrealized loss on the related debt was $29.6 million and $9.8 million in the six months ended June 30, 2010 and 2009, respectively.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Financial Instruments (Continued)

We enter into foreign exchange contracts primarily to hedge forecasted sales and purchases denominated in select foreign currencies, thereby limiting currency risk that would otherwise result from changes in exchange rates. The periods of the foreign exchange contracts correspond to the periods of the forecasted transactions, which generally do not exceed 12 to 15 months subsequent to the latest balance sheet date. We also enter into foreign exchange contracts to hedge our risk to changes in the fair value of recognized foreign currency denominated assets and liabilities and to hedge a portion of our net investments in certain foreign subsidiaries. The effective portions of cash flow hedges are reported in other comprehensive income (OCI) and are recognized in the statement of income when the hedged item affects earnings. The ineffective portion of all hedges is recognized in current period earnings. In addition, changes in fair value of all economic hedge transactions are immediately recognized in current period earnings. Our primary foreign currency hedge contracts pertain to the U.S. dollar, the Australian dollar, the Euro and the British pound sterling. The gross U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at June 30, 2010 was $481.7 million.

We enter into commodity swap contracts to manage the price risk associated with forecasted purchase of materials used in our operations. We account for these commodity derivatives as economic hedges or cash flow hedges. Changes in the fair value of economic hedges are recorded directly into current period earnings. There were no material commodity swap contracts outstanding as of June 30, 2010.

The counterparties to derivative contracts are major financial institutions. We are subject to credit risk on these contracts equal to the fair value of these instruments. Management currently believes that the risk of incurring losses is unlikely and that the losses, if any, would be immaterial.

The fair values of derivative instruments on the condensed consolidated balance sheet as of June 30, 2010 and December 31, 2009 were:

		Fair Value	
(in millions)		**June 30, 2010**	**December 31, 2009**
Assets:			
Foreign exchange contracts	Other current assets	$ 10.6	$ 6.6
Interest rate contracts	Other assets	37.7	12.3
Commodity contracts	Other current assets	0.3	1.0
	Total assets	$ 48.6	$ 19.9
Liabilities:			