FORTUNE BRANDS INC
Form 10-K
February 24, 2010
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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, 2009

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)	(IRS Employer Identification No.)

520 Lake Cook Road, Deerfield, IL 60015-5611

(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 5/8% Debentures Due 2021	New York Stock Exchange, Inc.
7 7/8% Debentures Due 2023	New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

The aggregate market value of registrant s voting stock held by non-affiliates of registrant, at June 30, 2009 (the last day of our most recent second quarter), was $5,203,249,957.62. The number of shares outstanding of registrant s common stock, par value $3.125 per share, at February 5, 2010, was 151,977,804.

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DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant to be held on April 27, 2010 (to be filed not later than 120 days after the end of registrant s fiscal year) (the 2010 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 operating companies engaged in the manufacture, production and sale of distilled spirits, home and security products, and golf 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. (Fortune Brands).

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 three categories: distilled spirits, home and security products and golf products. First, we strive to enhance shareholder value by profitably building leading consumer brands to drive sales and earnings growth and enhance returns on a long-term basis. We succeed by positioning our brands and businesses to outperform their respective markets. We do this by developing innovative new products and effective marketing programs, expanding customer relationships, extending brands into adjacent categories and developing international growth opportunities. Second, we pursue business improvements by operating lean and flexible supply chains and business processes. Third, we promote organizational excellence by developing winning cultures and associates. Fourth, we seek to enhance returns by leveraging our breadth and balance and financial resources to drive shareholder value. While our first priority is internal growth and our current focus is on paying down debt, we also strive to create shareholder value through add-on acquisitions, dispositions and joint ventures. In addition, we enhance shareholder value through other initiatives, such as using our financial resources to repurchase shares and pay dividends.

We made the following acquisitions and divestitures in recent years:

In 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 distribution joint venture. In addition, we paid 30 million (approximately $41.7 million) to acquire 50% ownership in five joint venture entities (April 2009).

> We acquired the EFFEN super-premium vodka brand and related assets from the Sazerac Company, Inc. In conjunction with this transaction, we sold the Old Taylor whiskey brand and assets to Sazerac Company, Inc. (June 2009).

In 2008:

> We acquired the premium Cruzan rum business from Pernod Ricard S.A. (Pernod Ricard) for $103.2 million in cash (September 2008).

> We repurchased the 10% noncontrolling interest in our Spirits business from Vin & Sprit Group (V&S) for $455.0 million (July 2008). In addition, we redeemed the 49% interest in our Spirits business s U.S. distribution joint venture held by V&S (September 2008). In a related transaction, we received $230.0 million from Pernod Ricard for early termination of the U.S. distribution agreement with V&S subsequent to its acquisition by Pernod Ricard.

In 2007:

> We sold the William Hill and Canyon Road wine brands and related assets to E. & J. Gallo Winery (August 2007).

> We sold the remaining U.S. wine assets to Constellation Brands, Inc. for $887.0 million (December 2007).

> We sold the U.S. distribution rights and related assets for The Dalmore Scotch Whisky to UB Group for $58.0 million (December 2007).

In 2006:

> We acquired SBR, Inc. (now Simonton Holdings, Inc.), a company of brands including Simonton Windows, a leading vinyl-framed window brand in North America, for a total cost of $599.8 million (June 2006).

> We sold the Cockburn s port wine production assets, retaining the ownership of the brand and worldwide intellectual property rights, for $66.4 million (July 2006).

In 2005:

> We acquired more than 25 spirits and wine brands as well as certain distribution assets in key markets from Pernod Ricard for a total cost of approximately $5.25 billion. Among the brands acquired were Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch and Clos du Bois super-premium wines (July 2005).

> We completed the spin-off of the Office products business, ACCO World Corporation, to the Company s shareholders (August 2005).

On an ongoing basis, we review the portfolio of brands owned by our operating companies and evaluate options for increasing shareholder value. Although no assurance can be given as to whether or when any acquisitions or dispositions may be made, we believe that we could finance acquisitions by issuing additional debt or equity securities. The possible additional securities from any completed

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acquisitions could increase the Company s indebtedness or shares outstanding, and these debt or equity securities might impact the Company s diluted earnings per share. We also consider other corporate strategies intended to enhance shareholder value, including share repurchases and changes to our 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 results of operations, cash flows or financial condition.

Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results. Readers are cautioned that these 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, amend or clarify them to reflect events, new information or circumstances occurring after the date of this Report. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

> general economic conditions, including the U.S. housing and remodeling market,

> competitive market pressures (including pricing pressures),

> customer defaults and related bad debt expense,

> consolidation of trade customers,

> successful development of new products and processes,

> ability to secure and maintain rights to intellectual property,

> risks pertaining to strategic acquisitions and joint ventures, including the potential financial effects and performance of such acquisitions or joint ventures, and integration of acquisitions and the related confirmation or remediation of internal controls over financial reporting,

> changes related to the Company s Spirits business organization, including its U.S. and international distribution structure,

> ability to attract and retain qualified personnel,

> weather,

> risks associated with doing business outside the United States, including currency exchange rate risks,

> commodity and energy price volatility,

> costs of certain employee and retiree benefits and returns on pension assets,

> dependence on performance of distributors and other marketing arrangements,

> the impact of excise tax increases on distilled spirits,

> changes in golf equipment regulatory standards and other regulatory developments,

> potential liabilities, costs and uncertainties of litigation,

> impairment in the carrying value of goodwill or other acquired intangible assets,

> historical consolidated financial statements that may not be indicative of future conditions and results,

> interest rate fluctuations,

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> volatility of financial and credit markets, which could affect access to capital for the Company, its customers and consumers, and

> any possible downgrades of the Company s credit ratings,

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 19, 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 Spirits, Home & Security, and Golf business segments. For financial information about these business segments, see Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

Spirits

Beam Global Spirits & Wine, Inc. (BGSW or the Spirits business) is a holding company in the distilled spirits industry. The Company s major subsidiaries include Jim Beam Brands Co. (JBBCo.), Jim Beam Brands Australia Pty. Limited, Beam Global España S.L., Beam Global Spirits & Wine (U.K.) Ltd., Tequila Sauza S.A. de C.V., Alberta Distillers Limited, Canadian Club Canada, Inc., Maker s Mark Distillery, Inc., Courvoisier S.A.S., Beam Global Holdings Mexico S.A. de C.V., and Cruzan Viril Ltd.

The Spirits business sells its products under a number of trademarks which are key to the continued success of our brands. The Spirits business owns key trademarks, including global brands Jim Beam (#1 bourbon), Maker s Mark (#1 super-premium bourbon), Sauza (#2 tequila), Canadian Club (a leading Canadian whisky), Laphroaig (#1 single Islay malt Scotch whisky) and Courvoisier (a leading cognac). The Company s trademarks for its strong national and regional brands include: Teacher s (Scotch whisky), Larios (gin), Whisky DYC (whisky), Cruzan (rum), Harveys (sherries), Cockburn s (port) and Kuemmerling (bitters). Trademarks used under long-term licenses include DeKuyper (the #1 cordials line in the U.S.), which is produced and sold in the U.S. and Mexico under a license of unlimited duration, and Gilbey s (gin and vodka in the U.S.), which is produced and sold in the U.S. under a license that has a current term until 2027 if not renewed.

Our spirits products are primarily sold through direct sales forces. In addition, we sell spirits products through joint ventures in which the Spirits business is a shareholder with The Edrington Group Ltd. (TEG), third party distributors, and global or regional duty free customers. Products are also 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. The peak season for the Spirits business is the fourth quarter due to holiday buying.

In June 2009, we acquired the EFFEN super-premium vodka brand and related assets from the Sazerac Company, Inc. In conjunction with this transaction, we sold the Old Taylor whiskey brand and assets to Sazerac Company, Inc.

Prior to April 1, 2009, BGSW owned a 25% interest in the Maxxium international spirits sales and distribution joint venture. The other equal partners in Maxxium were Rémy Cointreau S.A. (Rémy), V&S and TEG. In accordance with a Settlement Agreement executed in September 2008, on March 30,

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2009, Rémy and V&S exited the joint venture and BGSW became a 50% owner of Maxxium with TEG. BGSW and TEG are completing an orderly transition or winding down of Maxxium operations, which is substantially complete.

In September 2008, BGSW and TEG entered into an agreement establishing an international distribution alliance that is a combination of jointly-owned and Company-owned sales forces in 24 markets. The distribution alliance provided that BGSW and TEG acquire all or portions of certain distribution companies wholly-owned by Maxxium. Operations under the new alliance began on April 1, 2009. This alliance simplifies our international routes to market and gives us greater control over our distribution. The alliance provides that BGSW and TEG have joint 50-50 ownership of sales and distribution companies in certain markets and that BGSW wholly-owned or TEG wholly-owned distribution companies distribute both companies products and third party products in certain other markets. In April 2009, we paid 49.9 million (approximately $66.2 million, net of cash acquired) to purchase 100% interests in seven Maxxium subsidiaries. In addition, we paid 30.9 million (approximately $41.7 million) to acquire 50% ownership in five joint venture entities (April 2009).

In September 2008, we acquired the premium Cruzan rum business from Pernod Ricard for $103.2 million in cash. Also in September 2008, we closed on a transaction that resulted in the early termination of the U.S. distribution agreement between our Spirits business and the U.S. business of V&S acquired by Pernod Ricard. Under the agreement, Pernod Ricard paid us $230.0 million in cash in exchange for early termination of the distribution agreement. As a part of the early termination, we redeemed the 49% interest in Future Brands LLC (Future Brands), the U.S. distribution joint venture, held by V&S. Future Brands was consolidated as of September 30, 2008 and the consolidation did not have a material impact on the financial statements. Since October, 2008, the Spirits business has operated its own dedicated sales force in the U.S.

In December 2007, we sold the remainder of our U.S. wine assets to Constellation Brands Inc. (Constellation) for $887.0 million after selling two wine brands and related assets to E. & J. Gallo Winery in August 2007. The two transactions are collectively referred to as the sale of the U.S. Wine business. The sale to Constellation included Beam Wine Estates, Inc. s table wine brands (including Clos du Bois, Geyser Peak, Wild Horse), as well as the associated vineyards and winemaking assets, though not its fortified wine brands (Harveys sherries and Cockburn s port). In addition, in December 2007, we also sold the U.S. distribution rights and related assets of The Dalmore Scotch Whisky to UB Group for $58 million.

In July 2006, we sold the Cockburn s port wine production assets for $66.4 million, but retained the ownership of the brand and worldwide intellectual property rights.

In July 2005, the Company executed contracts to purchase more than 25 spirits and wine brands as well as certain distribution assets (the 2005 Spirits Acquisition) from Pernod Ricard. Brands acquired include Sauza tequila, Maker s Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt Scotch, Clos du Bois wines (sold December 2007), and leading regional and national brands and distribution operations in the U.K., Germany and Spain. The total recorded investment for the 2005 Spirits Acquisition was approximately $5.25 billion.

Principal markets for the products of the Spirits business are the U.S., Australia, Spain, Germany, the U.K. and Mexico. Approximately 45% of our Spirits business s sales are to markets outside the U.S.

The distilled spirits industry is competitive. Based on information from independent industry statistical sources, our Spirits business is the largest U.S.-based producer and marketer of distilled spirits and is the 4th largest premium, western-style spirits company in the world. We compete on the basis of product quality, brand image, price, service and innovation in response to consumer preferences. Major competitors include Diageo, Pernod Ricard, Bacardi, Brown-Forman and Rémy.

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Because whiskeys/whiskies, cognacs, brandies, ports, rum and some tequila varieties are aged for various periods (generally from three to ten years for whiskies, for example), the Spirits business maintains substantial inventories of maturing product in warehouse facilities. Production of maturing inventory 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, the Spirits business may, from time to time, seek to purchase maturing spirits to meet estimated future demand or sell excess maturing spirits.

The principal raw materials for the production, storage and aging of distilled products are primarily corn and other grains for whiskeys/whiskies and other spirits, agave for tequila, molasses for rum, new or used oak barrels and glass for bottles. These materials are generally readily available from a number of sources, except that new oak barrels are available from only a few sources. JBBCo. has a long-term supply agreement with a third-party supplier for the purchase of new oak barrels. This agreement requires a minimum of three years notice prior to termination. JBBCo. purchases barrels from two other suppliers on a year-to-year basis pursuant to purchase orders.

The principal raw materials used in the production of cognacs and fortified wines are grapes, barrels and glass for bottles. Grapes are purchased primarily from independent growers under long-term supply contracts or purchased on the spot market, 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 our Spirits products are subject to regulation by federal, state, local and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits and fortified wines in whole or in part.

In many of the key markets for our Spirits business, distilled spirits are subject to federal excise taxes and/or customs duties as well as state/provincial, local and other taxes. Beverage alcohol sales could be impacted by higher excise tax rates. Although no federal excise tax increase is presently pending in the U.S., our largest market, there were excise tax increases in several U.S. states in 2009 and the possibility of future increases cannot be ruled out. In April 2008, the Australian government increased excise taxes on ready-to-drink spirits products by 70%, equating to a 25% price increase to consumers, which adversely impacted demand for Beam s pre-mixed products including Jim Beam and Cola. Operating income comparisons were negatively impacted by the excise tax increase until its impact annualized at the end of April of 2009. Excise or other tax increases are also considered from time to time in other key markets such as the U.K., Spain and Mexico. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases could have an adverse effect on our financial results.

Factors that could adversely affect future results in our Spirits business include consumers trading down to lower price points, competitive pricing activities, changes in customer inventory levels, potential impairment charges, the possibility of future excise and other tax increases globally, regulatory enforcement trends, and reduction of government financial incentives related to our rum production.

Home & Security

Fortune Brands Home & Security LLC (Home & Security) is a holding company for subsidiaries in the home products industry. Subsidiaries include MasterBrand Cabinets, Inc. (MasterBrand Cabinets), Moen Incorporated (Moen), Therma-Tru Corp. (Therma-Tru), Simonton Holdings, Inc. (Simonton) and Fortune Brands Storage and Security LLC (Storage and Security). On January 1, 2010, we changed the name of this segment from Fortune Brands Home & Hardware LLC to Fortune Brands Home & Security LLC. Home & Security s operating companies compete on the basis of innovation, fashion,

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product quality, price, service and responsiveness to distributor and retailer needs, and end-user consumer preferences. The home and security industry is highly competitive. Factors that affect our Home & Security business s results of operations include levels of home improvement and residential construction activity, principally in the U.S. Approximately 15% of Home & Security s sales are to international markets.

MasterBrand Cabinets manufactures custom, semi-custom, stock and ready-to-assemble cabinetry for the kitchen, bath and home. MasterBrand Cabinets sells under brand names including Aristokraft, Omega, Kitchen Craft, Schrock, Diamond, HomeCrest, Decorá and Kemper. MasterBrand Cabinets sells directly to kitchen and bath specialty dealers, home centers, wholesalers and large builders. MasterBrand Cabinets competitors include Masco, American Woodmark and Norcraft Companies, as well as a large number of small suppliers. MasterBrand Cabinets is the second largest manufacturer of kitchen and bath cabinetry in North America.

Moen manufactures faucets, bath furnishings, accessories, parts and kitchen sinks in North America, China and India. Sales are made through Moen s own sales force and independent manufacturers representatives, primarily to wholesalers, home centers, mass merchandisers and industrial distributors. Products are sold principally in the U.S. and Canada and also in China, India, Mexico, South America and Southeast Asia. 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 according to an independent industry survey.

Therma-Tru is a leading residential entry door brand in the United States. Therma-Tru manufactures fiberglass and steel residential entry door and patio door systems, primarily for sale in the United States and Canada. In 2008, Therma-Tru withdrew from the U.K. door market. Therma-Tru s principal customers are home centers and millwork building products distributors that provide 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 2006, we acquired SBR, Inc., a privately held company consisting of brands including Simonton Windows, a leading brand of vinyl-framed windows and patio doors. Simonton products are principally manufactured and sold in the United States. Simonton s principal customers are home centers, wholesale distributors and specialty dealers that provide products to the residential market, primarily for both retrofit and new construction applications. Simonton s competitors include Silverline, Atrium and Milgard.

Storage and Security is comprised of the Master Lock and Waterloo product lines. Master Lock Company LLC (Master Lock) manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, door hardware, automotive, trailer and towing locks and other specialty safety and security devices. Products designed for consumer use are sold to wholesale distributors, home centers and hardware and other retail outlets. Lock systems are sold to industrial and institutional users, original equipment manufacturers and retail outlets. Master Lock competes with Abus, W.H. Brady, Hampton, Kwikset, Schlage and various imports. Master Lock is the #1 padlock manufacturer worldwide. Waterloo Industries, Inc. (Waterloo) manufactures tool and garage 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, 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 Stanley, Keter, Rubbermaid and others in the plastic hand box category. Waterloo is the #1 retail tool storage manufacturer in the U.S.

Product branding and innovation are important to the success of the Home & Security business. In addition to the previously discussed trademarks, patent protection helps distinguish our unique

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product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. The Home & Security business holds U.S. and foreign patents covering various features used in our faucet and bath furnishings, entry doors, windows, locks and security products as well as storage products.

Raw materials used for the manufacture of products offered by Home & Security s operating companies are primarily red oak, maple and pine lumber, particleboard, rolled steel, brass, zinc, copper, nickel, aluminum, glass and various plastic resins. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the cost of manufacturing our products. Beginning in 2007, the Home & Security business experienced fluctuations in commodity and energy-related costs. While in the past we have been able to mitigate the impact of commodity cost increases through productivity improvements and passing on increased costs to our customers, there is no assurance that we will be able to offset such cost increases in the future.

Golf

Acushnet Company (Acushnet or the Golf business), together with its subsidiaries, is a leading manufacturer and marketer 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; Vokey Design wedges; 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 directly in the U.S. and in key international markets. In some international markets, sales are made through distributors or agents. Approximately 45% 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 the leading market positions in golf balls (Titleist and Pinnacle), golf shoes and golf gloves (FootJoy). Acushnet also is a leading U.S. competitor in golf clubs (Titleist and Cobra). In golf balls, Acushnet s main competitors are Bridgestone, Callaway, Nike, TaylorMade and Srixon. In golf clubs, TaylorMade, Callaway, Ping, Cleveland and Nike are the primary competitors. In golf shoes, Adidas and Nike are the main competitors. In golf gloves, Nike and Callaway are the primary competitors. Acushnet s business is seasonal and approximately 60% of 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 synthetic rubbers, polymers, steel, titanium, and natural and synthetic leathers.

Acushnet s advertising and promotional campaigns feature 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 is expected to be increasingly competitive.

The future success of the Golf business will depend upon continued innovation, product quality and successful marketing across product categories. In addition, international market opportunities, especially in the Pacific Basin region, are contributing to growth for the Golf business.

Branding and product innovation are both important to the success of the Golf business. The Titleist, Cobra, FootJoy and Pinnacle trademarks are of particular importance to the business. Product innovation is a powerful growth engine in the golf segment, and our patent portfolio is an important

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resource to help inhibit competitors from copying or exploiting our innovations. The Company holds United States and foreign patents covering innovations and design features used in our golf balls, golf clubs and shoes, and holds other licenses, trademarks and tradenames. There continues to be a substantial issue with 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.

Employees

As of December 31, 2009, the Company and its subsidiaries had the following number of employees:

Spirits	3,452
Home & Security	15,834
Golf	4,836
Corporate	126
Total	24,248

Environmental Matters

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We adjust accruals as new information develops or circumstances change, and accruals are not discounted. At December 31, 2009 and 2008, environmental accruals amounted to $24.5 million and $29.1 million, respectively, and are included in non-current liabilities on the balance sheet. In our opinion, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties, including insurers) will not have a material adverse effect upon our results of operations, cash flows or financial condition. See Item 7 Management s Discussion and Analysis of Results of Financial Condition and Results of Operations Pending Litigation Environmental Matters for more information.

(d) Financial Information about Geographic Areas.

We sell products primarily in the United States, Canada, Europe (primarily the U.K., Spain, Germany and France), Australia, Asia (primarily Japan, China and South Korea) and Mexico. A change in the value of the currencies of these countries can impact our financial statements when translated into U.S. dollars. The exchange rates between some of the foreign currencies in which our subsidiaries operate and the U.S. dollar have fluctuated significantly in recent years and may do so in the future. We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand, Taiwan, India and other countries. We are subject to risks associated with changes in political, economic and social environments, local labor conditions, changes in laws, regulations and policies of foreign governments, as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. See Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

(e) Available Information.

The Company s website address is 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. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Policies, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, Charters for the Committees of our Board of Directors and other information related to the Company.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., 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 1A. Risk Factors.

We believe that the following risks and uncertainties may be material to our business. Additional risks and uncertainties that we currently consider to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business, results of operations and financial condition could be materially and adversely impacted.

Current economic challenges may continue and a recovery may be slow or reverse, adversely impacting our financial results and liquidity.

Stable economic conditions globally, including strong employment, consumer confidence and credit availability, are important not only to the basic health of our consumer markets, but also our own financial condition. While the major economic disruptions of the global financial markets have largely subsided, major economic challenges remain globally, including very high unemployment, low consumer confidence, record budget deficits and levels of national debt, and fragile credit and housing markets. These factors may adversely impact our financial results and liquidity. As in past downturns, a recession decreases demand and causes consumers to defer discretionary purchases, such as major remodeling projects and the purchase of golf clubs. In addition, other portions of our business have come under pressure, including the global distilled spirits market, as well as the historically stable golf ball, golf shoe, golf glove and accessories markets. We have also seen consumers trade down to lower-priced products across all our businesses and increased price competition.

The global recession and credit crisis have also adversely impacted the financial stability of our customers which may result in further reductions in customer inventories, as well as higher bad debt expense across our businesses. A prolonged global economic stagnation may also impact our access to long-term capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially impact our ability to pay dividends, fund acquisitions and repurchase shares in the future.

A significant portion of our business is impacted by risks associated with fluctuations in the U.S. housing market.

Our home products business is primarily impacted by U.S. demand for remodeling and repair of existing homes, as well the market for new homes, which began to stabilize in the second half of 2009. Demand for our products is strongly influenced by the financial strength and confidence of consumers, and by consumers household income, job security, access to credit and housing prices. While home prices have begun to stabilize, the housing market still faces downward pressures resulting from high levels of inventory. In addition, the eventual withdrawal of government programs for home products, such as the first time home buyer tax credit, the energy tax credit and the distressed mortgage buying programs will decrease demand and could impact the housing recovery.

Demographic factors, such as aging housing stock, changes in population growth and household formation will have a long-term effect on the home improvement, repair and residential construction markets. While demographic trends are favorable for the long-term growth of the U.S. home products market, it is very difficult to predict the pattern, timing, sustainability and impact of a recovery.

We operate in highly competitive consumer categories.

While we largely compete for customers on the basis of product quality, brand strength and service, price is also an important basis of selection and competition. Our success depends on maintaining the strength of our consumer brands by continuously improving our offerings and appealing to the changing needs and preferences of our customers and end consumers. While our businesses are leaders in their categories and devote significant resources to continuous improvement of their products and marketing strategies, it is possible competitors may improve more rapidly or effectively, adversely affecting our sales, margins and profitability.

Demand for our products and our financial results are dependent on the successful development of new products and processes.

Our success depends in part on fulfilling available opportunities to meet consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes on a timely basis to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products, we may not be successful in their development or these new products may not be commercially successful.

The inability to secure and maintain rights to intellectual property could adversely affect our business.

We have many patents, trademarks, brand names and trade names that are important to our business. Our business could be adversely affected by the loss of any major brand or by infringement of our intellectual property rights. We are also subject to risks in this area because existing patent, trade secret and trademark laws offer only limited protection, and the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products from infringement by others. In addition, others may assert intellectual property infringement claims against us or our customers. With respect to our Golf business, we are subject to intellectual property lawsuits that might cause us to incur significant costs, and if resolved unfavorably, pay significant damages, prohibit us from selling products or delay the introduction of new products.

Downgrades of our credit ratings could adversely affect us.

If Moody s, S&P or Fitch were to downgrade our credit ratings to a non-investment grade rating, such a downgrade could result in an increase to our cost of capital and impact our future capability to access credit. Downgrades of our credit ratings would adversely affect the fair value and marketability of our outstanding debt.

Continued consolidation of our trade customers, particularly in the home and security industry, could adversely affect our business.

Though large customers can offer efficiencies and unique product opportunities, consolidation increases their size and importance. These larger customers can make significant changes in their volume of purchases, seek price reductions and even become competitors for some products. Further consolidation could adversely affect our margins and profitability, particularly if we were to lose a significant customer.

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Risks associated with our ability to continuously improve organizational productivity and global supply chain efficiency and flexibility could adversely affect our business, either in an environment of potentially declining market demand or one that is volatile or resurging.

We need to continually evaluate our organizational productivity and global supply chains and assess opportunities to reduce costs and assets. We must also enhance quality, speed and flexibility to meet changing and uncertain market conditions. Our success also depends in part on refining our cost structure and supply chains to promote a consistently flexible and low cost supply chain that can respond to market pressures to protect profitability and cash flow or ramp up quickly and effectively to meet demand. Failure to achieve the desired level of quality, capacity or cost reductions could impair our financial results. Despite proactive efforts to cost controls and reduced production in our facilities, competition could still result in lower operating margins and profitability.

Our failure to attract and retain qualified personnel could adversely affect our business.

Our success depends in part on the efforts and abilities of our senior management team and key employees. Their motivation, skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract, motivate and retain members of our senior management team and key employees could have a negative effect on our operating results.

Risks associated with our strategic acquisitions and joint ventures could adversely affect our business.

While our current focus is debt reduction, we continue to consider acquisitions and joint ventures as a means of enhancing shareowner value. Acquisitions and joint ventures involve risks and uncertainties, including: difficulties integrating acquired companies and operating joint ventures, retaining the acquired businesses customers and brands, and achieving the expected financial results and benefits of transactions, such as cost savings, and revenue increases from expanded geographic or product presence; loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, procedures, policies and information systems; and diversion of management s attention from other business concerns. Our Spirits business is transitioning to more direct sales and distribution routes to market, both in the U.S. and internationally, following the sale of Vin & Sprit Group to Pernod Ricard S.A. in 2008. In the U.S., we have regained full ownership of the sales and distribution assets formerly held by our joint venture, Future Brands LLC. Distribution in most major international markets is through an alliance with The Edrington Group that is a combination of jointly-owned or company-owned sales forces. In 2008, we also acquired Cruzan rum.

Future acquisitions could cause us to incur additional debt, issue shares, increase contingent liabilities, increase interest expense and amortization expense related to intangible assets, as well as experience dilution in earnings per share and return on capital. Future impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges, could also occur as a result of acquisitions.

Risks associated with interest rate fluctuations, as well as commodity and energy availability, price increases and volatility could adversely affect our business.

We are exposed to risks associated with interest rate fluctuations and commodity price volatility arising from weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. We buy commodities, including steel, copper, zinc, titanium, glass, plastic, resins, wood, particleboard, grains and grapes. We also grow agave plants for tequila production. Availability, increases and volatility in the prices of these commodities, as well as products sourced from third parties and energy used in making, distributing and transporting our products, could

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increase the manufacturing costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers, there is no assurance that we will be able to offset such cost increases in the future. While we may use derivative contracts to limit our exposure to commodity price volatility, the exposures under these contracts could still be material to our results of operations and financial condition.

We manufacture and source many products internationally and are exposed to risks associated with doing business globally.

We manufacture and source our products in the United States, Europe, Canada, Mexico, China, Thailand, Taiwan, India and other countries. Accordingly, we are subject to risks associated with potential supply chain disruption caused by changes in political, economic and social environments, civil unrest, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments, trade disputes with the U.S., as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. Exchange rate fluctuations may also significantly impact the cost of sourced products and our financial results.

We sell products globally and are exposed to currency exchange rate risks, including those related to the recent volatility of the U.S. dollar.

We sell and produce products in the United States, Europe, China and other areas (principally Canada, Mexico and Australia). While we hedge certain foreign currency transactions, a change in the value of the currencies will impact our financial statements when translated into U.S. dollars. In addition, fluctuations in currency can adversely impact the cost position in local currency of our products, making it more difficult for our operations to compete. The exchange rates between some of the major foreign currencies in which our subsidiaries operate (including the British pound sterling, Australian dollar, euro, Japanese yen, Canadian dollar and Mexican peso) and the U.S. dollar have fluctuated significantly in recent years and are likely to continue to do so in the future. A revaluation of the Chinese yuan may significantly impact the cost of our products.

Our businesses rely on the performance of wholesale distributors and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels and customers, including financial pressures brought on by the global recession and credit crisis.

Our spirits products are sold principally through wholesale distributors for resale to retail outlets. Though strongly profitable, the replacement, poor performance or financial default of a major distributor or one of its major customers could adversely affect our businesses. Our Home & Security business relies on a distribution network comprised of consolidating customers. Any unplanned disruption to the existing distribution could adversely affect our revenues and profitability. The sale of a distributor to a competitor or, financial instability or default of the distributor or one of its major customers, potentially could cause such a disruption.

Costs and funding requirements of certain employee and retiree benefits may continue to rise.

Increases in the costs of medical and pension benefits could continue and negatively affect our business as a result of: increased usage of medical benefits by current and retired employees and medical inflation in the United States; the effect of declines in the stock and bond markets on the performance of our pension plan assets; potential reductions in the discount rate used to determine the present value of our benefit obligations; and changes in law and accounting standards that may increase the funding of, and the expense reflected for, employee benefits.

Changes in government and industry regulatory standards could adversely affect our businesses.

In the Golf business, our ability to develop and market new products is potentially hindered by rules governing equipment standards set by industry associations, such as restrictions on golf club head size and shaft length, and the overall distance standard for golf balls. Changes in equipment standards could adversely impact our Golf business. Our Spirits business is subject to extensive regulatory requirements regarding distribution, production, labeling, and marketing. Changes to regulation of the beverage alcohol industry could include increased limitations on advertising and promotional activities or other non-tariff measures that could adversely impact our spirits business.

In addition, we face government regulations pertaining to the health and safety of our employees and our consumers as well as regulations addressing our businesses impact on the environment, domestically as well as internationally. Our compliance with these regulations includes responding to emerging climate change initiatives, restrictions on lead content in plumbing products, regulations governing formaldehyde emissions applicable to our manufacture of cabinets and standards on volatile organic compounds which impact all of our businesses. Compliance with these health, safety and environmental regulations may require us to alter our manufacturing processes and our sourcing. Such actions could adversely impact our results and our ability to effectively and timely meet such regulations could adversely impact our competitive position.

Changes in excise taxes and incentives related to distilled spirits could adversely affect our Spirits business.

Distilled spirits are subject to excise tax in many countries where we operate. While no federal excise tax increase is presently pending in the United States, our largest market, fiscal pressures are rising dramatically, increasing the risk of a potential federal excise tax increase on spirits. Many states and other jurisdictions are considering possible excise tax increases. The effect of any future excise tax increases cannot be determined, but could have an adverse effect on our business by reducing demand. Our Spirits business is the recipient of certain governmental financial incentives in connection with its manufacture of rum. The amount and availability of financial incentives in future periods cannot be assured. Any reduction in incentives could have an adverse effect on our Spirits business by increasing production costs.

Potential liabilities and costs from litigation could adversely affect our business.

Our businesses are subject to risks related to litigation, including with respect to alcohol-related liability, as well as tobacco products made and sold by former subsidiaries. Our Golf business faces patent litigation that could result in significant costs as well as potentially impact our ability to sell products. It is not possible to predict the outcome of pending or future litigation, and, as with any litigation, it is possible that some of the actions could be decided unfavorably and could have a material adverse effect on the results of the Company s operations, cash flows or financial condition.

Historical financial statements may not be reflective of our future financial condition and results of operations due to recent portfolio changes or other reasons.

Although we believe that this report contains all material information that is necessary to make an informed assessment of our assets and liabilities, financial position, profit and losses and prospects, historical financial statements do not necessarily represent what our results of operations or financial position will be for any future periods. Significant recent changes include regaining full ownership of spirits U.S. distribution in 2008 and the establishment of a new international distribution alliance with The Edrington Group on April 1, 2009. This alliance is a combination of jointly-owned and company-owned sales forces.

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An impairment in the carrying value of goodwill or other acquired intangible assets could negatively affect our operating results and shareholder equity.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangible assets represents the fair value of trademarks, tradenames and other acquired intangible assets as of the acquisition date. Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by our management at least annually. If carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in further impairments include a change in expected global consumer spending and timing of the recovery from the global recession, and the impact of slowing market growth rates in certain categories in our Spirits business. In addition, further impairment could be caused by changes in the industries in which we operate as well as competition, a significant product liability or intellectual property claim, or other factors leading to reduction in expected long-term sales or profitability. If the value of goodwill or other acquired intangible assets is impaired, our earnings and shareholders equity could be adversely affected.

Various other external conditions such as weather could adversely impact our sales, profitability, and cash flow from operations.

Weather conditions are also a factor impacting year-to-year comparisons in our Golf business as well as our U.S. manufacturing capabilities. Specifically, adverse weather conditions can erode annual rounds of play, thus decreasing the demand for our golf products. In addition, extreme weather events could potentially disrupt the Company s supply chain coordination in the event of damage to our facilities or the inventory located at our facilities.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The Company leases its principal executive offices in Deerfield, Illinois. The following table indicates the principal properties of the Company and its subsidiaries as of December 31, 2009:

Segment	Manufacturing Plants		Distribution Centers		Warehouses		Other[a]	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
Spirits								
U.S.	5				9	1		
Europe	12		1		10			
Mexico	1				2	5		
Asia	1			13		5		
Canada	1				1			
Home & Security								
U.S.	29	4	2	14	1	8		
Canada	1	1		2		3		
Mexico	3		1	1				
Asia	1	2		2		1		
Europe				1				
Central America				1				
Golf								
U.S.	3	1	1	2			3	4
Asia	2	1	1	6				
Europe			1	1				3
Australia/New Zealand				2				
Canada				1				
Africa				1				
Corporate								
U.S.								1
Total U.S.	37	5	3	16	10	9	3	5
Total Non-U.S.	22	4	4	31	13	14		3
TOTAL	59	9	7	47	23	23	3	8

[a] Other includes research and development facilities, golf club fitting centers and the Fortune Brands Corporate office.

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, we sold The American Tobacco Company (ATCO) subsidiary 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 Agreement (the Indemnification Agreement), to indemnify Fortune Brands, Inc. 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 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 we are not aware of any inability on the part of the Indemnitor to satisfy its indemnity 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.

Pending Cases

As of February 5, 2010, there were approximately six smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants, compared with eight cases reported in our Annual Report on Form 10-K for the year ended December 31, 2008. There are no purported smoking and health class actions or health care recovery actions pending against the Company. For a list of pending cases, see Exhibit 99 to this Annual Report on Form 10-K.

Terminated Cases

Two tobacco-related cases were terminated in 2009. For a list of terminated cases, see Exhibit 99 to this Annual Report on Form 10-K.

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, the Florida Circuit Court 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. On October 22, 2003, plaintiffs counsel sought review of this decision in the Florida Supreme Court. On July 6, 2006 the Florida Supreme Court vacated the jury s $145 billion punitive damage award and also decertified the class and reinstated compensatory damages to the two named plaintiffs, and permitted individual members of the former class to file separate lawsuits within one year of issuance of the mandate (which was ultimately issued January 11, 2007). On August 7, 2006, both parties filed motions for rehearing with the Florida Supreme Court. On December 21, 2006, the Florida Supreme Court denied plaintiffs rehearing motion, and granted in part and denied in part defendants rehearing motion. The December 21, 2006 ruling did not amend

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the July 6, 2006 decision s major holdings, but instead addressed the claims to which the Engle jury s phase one verdict will be applicable in the individual lawsuits that the Florida Supreme Court s decision has permitted. On October 1, 2007, the United States Supreme Court denied defendants motion seeking review by that court. As of January 25, 2010, B&W and/or R.J. Reynolds Tobacco Company had been served in over 7,800 cases (the Engle progeny cases) brought by individual plaintiffs in state and federal courts in Florida. These cases include claims asserted by over 9,400 individual plaintiffs. The number of cases may increase as the Florida courts continue to sever cases with multiple plaintiffs. In 2009, trials in the Engle progeny cases began. Of the ten Engle progeny cases that were tried in 2009, several resulted in adverse judgments against tobacco companies, including four adverse judgments against the Indemnitor. All four of these adverse judgments are currently being appealed by the Indemnitor. The Company is not a party to any of 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 dismissed certain counts of the lawsuit, but 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 U.S. Supreme Court denied the government s petition to review the case on October 17, 2005. The trial was concluded in June, 2005. On August 17, 2006, the Court issued its final judgment and remedial order, which found that the defendants violated federal civil RICO law by defrauding the public with regard to smoking and health issues. The court did not award monetary damages to the government, but did order the defendants to, among other things, remove descriptors such as low tar, light or ultra light from cigarette packages and to publish certain corrective statements regarding smoking and health issues. The defendants and the government appealed this matter. On May 22, 2009, the U.S. Court of Appeals for the District of Columbia unanimously affirmed the district court s RICO liability judgment against several defendants, including the Indemnitor, ordered the dismissal of two defunct U.S. trade associations that were not covered by the district court s injunctive remedies, and remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The government s cross-appeal seeking disgorgement of past profits and the funding of smoking education and cessation programs was denied. On December 11, 2009, the U.S. Court of Appeals for the District of Columbia entered an order continuing the effective stay of the district court s injunctive remedies pending the U.S. Supreme Court s final disposition of the case. 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. On December 15, 2005, the Illinois Supreme Court reversed the judgment and remanded the case to the lower court with instruction to dismiss the case. On November 27, 2006, the U.S. Supreme Court refused to hear plaintiff s appeal and ordered the lower court to dismiss plaintiff s pending motion to vacate. On December 18, 2006, the trial court entered a final judgment in accordance with the Illinois Supreme Court s mandate. On January 17, 2007, the plaintiffs subsequently filed a motion in the lower court seeking to vacate or withhold judgment. On August 22, 2007, the Illinois Supreme Court issued a supervisory order directing the lower courts to dismiss the motion. On August 30, 2007, the trial court dismissed plaintiffs motion. On December 18, 2008, plaintiff filed a petition requesting the state court to vacate the Price judgment in light of the U.S. Supreme Court s December 15, 2008 decision in Altria Group, Inc. v. Good (in which the Court held that federal law did not preempt the plaintiff s assertion of state-law consumer fraud claims which alleged that defendants advertising and marketing fraudulently conveyed the message that light cigarettes deliver less tar and nicotine to smokers than regular cigarettes.) On February 4, 2009, the trial court dismissed the plaintiff s petition. On March 4, 2009, plaintiff filed a notice of appeal to the intermediate appellate court. Oral argument was heard in the intermediate appellate court on February 2, 2010. Class actions involving similar allegations as Price (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 Company, respectively, in the same court. Proceedings in the Howard and Turner cases have been stayed and are otherwise inactive pending resolution of the Price litigation. The Company is not a party to the Price, Howard, Turner or Good 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 that included monetary payments of several billion dollars. The Company was not a party to the Minnesota or Texas actions 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.

Conclusion

It is not possible to predict the outcome of the pending litigation, and it is possible that some of these actions could be decided unfavorably. Management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of the pending litigation. However, management believes that there are a number of meritorious defenses to the pending actions, including the fact that the Company never made or sold tobacco, and these actions are being vigorously contested by the Indemnitor. Management believes that the pending actions will not have a material adverse effect upon the results of operations, cash flows or financial condition of the Company because it believes it has meritorious defenses and the Company is indemnified under the Indemnification Agreement.

Other Litigation

On February 9, 2006, Callaway Golf Company filed a lawsuit seeking unspecified damages against Acushnet Company in the United States District Court for the District of Delaware. Callaway alleged

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that Pro V1 golf balls then manufactured by Acushnet Company infringed four of Callaway s patents. Acushnet stipulated to infringement and a jury trial on the validity of the patent claims asserted by Callaway was conducted in December 2007. The jury was provided evidence related to nine claims contained in the four patents and returned a mixed verdict, finding one claim invalid and eight claims valid. On November 10, 2008, the trial court issued an order enjoining sales of all 2007 Pro V1 golf balls as of January 1, 2009. Acushnet appealed to the United States Court of Appeals for the Federal Circuit.

On August 14, 2009, the Court of Appeals overturned the judgment, vacated the injunction and sent the case back to the District Court. The Court of Appeals also found that the District Court erred in rejecting an Acushnet defense before the trial and that certain evidence supporting that defense may be available to Acushnet for the new trial. The District Court has scheduled a new trial for March 2010.

Separately, subsequent to the first trial in the District Court, the U.S. Patent and Trademark Office (PTO) issued final actions determining that all four of the patents on which Callaway s infringement claims are based are invalid. The PTO also issued a Right of Appeal Notice on all four of the patents, providing Callaway the opportunity to appeal the determination to the Patent Board of Appeals. Callaway has filed appeals regarding all four of the patents with the Patent Board of Appeals.

In late 2008, Acushnet introduced what it believes to be non-infringing Pro V1 balls. In February 2009, Acushnet introduced new improved versions of the Pro V1 balls, which it also believes are non-infringing. On March 3, 2009, Callaway filed a lawsuit seeking unspecified damages against Acushnet in the United States District Court for the District of Delaware. Callaway alleged that Acushnet s modified Pro V1 balls and Acushnet s new 2009 versions of the Pro V1 balls infringe two additional patents owned by Callaway.

On March 3, 2009, Acushnet also filed a lawsuit seeking unspecified damages against Callaway in the United States District Court for the District of Delaware. Acushnet alleged that Callaway s Tour i and Tour ix balls infringe nine of Acushnet s patents.

In addition, on March 3, 2009, Acushnet filed with the PTO a reexamination request for the two additional patents asserted by Callaway. The PTO has accepted the reexaminations and has issued first office actions that reject all of the claims of both patents as invalid on multiple grounds.

We believe, and counsel advises, that Acushnet has meritorious defenses to the litigation brought by Callaway and both of these matters are being vigorously contested. It is not possible at this time to assess the likelihood of an adverse outcome or determine a reasonable estimate, or range of estimates, of potential damages. If decided unfavorably, however, the litigation could have a material adverse effect on the results of the Company s operations, cash flows or financial condition.

In addition to the lawsuits described above, the Company and its subsidiaries are defendants in lawsuits associated with the normal conduct of their businesses and operations. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that some of these actions could be decided unfavorably. We believe that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon our results of operations, cash flows or financial condition. These actions are being vigorously contested.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Quarterly Common Stock Cash Dividend Payments

	2009	2008
Payment date	*Per share*	Per share
March	$ 0.44	$ 0.42
June	0.19	0.42
September	0.19	0.44
December	0.19	0.44
Total	$ 1.01	$ 1.72

We currently expect to pay quarterly cash dividends in the future, but such payments are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth under Item 1A. Risk Factors.

Quarterly Composite Common Stock Prices

	2009		2008	
	High	*Low*	High	Low
First Quarter	$ 42.97	$ 17.68	$ 72.58	$ 62.13
Second Quarter	$ 43.49	$ 24.23	$ 74.44	$ 61.91
Third Quarter	$ 46.59	$ 31.58	$ 63.67	$ 51.59
Fourth Quarter	$ 46.77	$ 37.74	$ 57.95	$ 30.24

The common stock is listed on the New York Stock Exchange, which is the principal market for this security. The high and low prices are as reported in the consolidated transaction reporting system.

On February 5, 2010, there were 18,467 record holders of the Company s common stock, par value $3.125 per share.

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Stock Performance

The foregoing performance graph is being furnished as part of this Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, is not deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Peer Group Index

The Peer Group is composed of the following publicly traded companies in industries corresponding to the Company s current three core businesses:

Spirits: Brown-Forman Corporation, Constellation Brands, Inc., Diageo PLC, Pernod Ricard S.A. and Rémy Cointreau S.A.;

Home & Security: The Black & Decker Corporation, Masco Corporation, Newell Rubbermaid Inc. and The Stanley Works; and

Golf: Adidas Salomon AG, Callaway Golf Company, Mizuno Corporation and NIKE, Inc.

Calculation of Peer Group Index

The weighted average total return of the entire Peer Group, for each year, is calculated in the following manner:

(1) the total return of each Peer Group member is calculated by dividing the change in market value of a share of its common stock, assuming periodic dividend reinvestment, by the cumulative value of a share of its common stock at the beginning of the year;

(2) each Peer Group member s total return is then weighted within its industry segment based on its market capitalization at the beginning of the year, relative to the market capitalization of the entire segment, and the sum of such weighted returns results in a weighted average total return for that segment; and

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(3) each segment s weighted average total return is then weighted based on the percentage of sales, excluding excise taxes, of that segment of the Company for the year, as compared with total Company sales, excluding excise taxes, and the sum of such weighted returns results in a weighted average total return for the entire Peer Group.

The Peer Group Index reflects the weighted average total return for the entire applicable Peer Group calculated for the five-year period, starting with a base of $100.

Item 6. Selected Financial Data.

Five-year Consolidated Selected Financial Data

Fortune Brands, Inc. and Subsidiaries

	For the year ended December 31,				
(In millions, except per share amounts)	*2009*	2008	2007	2006	2005
Operating Data					
Net sales	$ 6,694.7	$ 7,608.9	$ 8,563.1	$ 8,521.0	$ 6,891.0
Depreciation and amortization	254.7	265.5	265.0	240.5	219.5
Operating income	505.2	145.6	1,376.3	1,447.9	1,151.3
Interest expense	215.8	237.1	293.6	308.8	153.6
Income taxes	36.3	95.6	346.3	299.3	321.8
Income from continuing operations, net of tax	247.1	92.8	773.9	880.0	597.5
Income from discontinued operations, net of tax		152.5	13.1	18.0	43.6
Net income	247.1	245.3	787.0	898.0	641.1
Net income attributable to Fortune Brands	242.8	311.1	762.6	830.1	621.1
Basic earnings per common share					
Continuing operations	$ 1.61	$ 1.04	$ 4.89	$ 5.44	$ 3.96
Net income attributable to Fortune Brands common shareholders	$ 1.61	$ 2.05	$ 4.98	$ 5.56	$ 4.26
Diluted earnings per common share					
Continuing operations	$ 1.60	$ 1.03	$ 4.79	$ 5.31	$ 3.84
Net income attributable to Fortune Brands common shareholders	$ 1.60	$ 2.02	$ 4.87	$ 5.42	$ 4.13
Common Share Data[(a)]					
Dividends paid	$ 152.2	$ 261.2	$ 248.6	$ 224.0	$ 201.6
Dividends paid per share	$ 1.01	$ 1.72	$ 1.62	$ 1.50	$ 1.38
Average number of basic shares outstanding	150.3	151.7	153.1	149.1	145.6
Book value per share	$ 33.90	$ 31.18	$ 36.90	$ 31.08	$ 24.88
Balance Sheet Data					
Inventories	$ 2,016.6	$ 1,975.4	$ 2,047.6	$ 1,937.8	$ 1,404.8
Current assets	3,871.7	3,468.1	3,780.9	3,930.1	3,192.7
Working capital	2,408.1	2,278.0	1,687.0	1,414.7	374.8
Property, plant and equipment, net	1,467.9	1,553.9	1,698.2	1,708.2	1,405.2
Intangible assets, net	6,764.9	6,783.2	8,063.2	8,038.7	6,487.5
Total assets	12,370.6	12,091.9	13,956.9	14,668.3	13,201.5
Short-term debt	51.3	36.6	431.0	789.3	934.1
Long-term debt	4,413.3	4,688.6	3,942.7	5,034.9	4,889.9
Stockholders equity	5,092.4	4,686.0	5,685.5	4,728.0	3,645.6
Total equity	5,105.7	4,699.6	5,701.1	4,744.8	3,678.3

[(a)] On December 31, 2009, there were 18,595 common stockholders of record.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Net Sales				
	Year Ended December 31,				
(In millions)	*2009*	*% Change vs. Prior Year*	2008	% Change vs. Prior Year	2007
Spirits	$ 2,469.6	(0.5)%	$ 2,480.9	(4.8)%	$ 2,606.8
Home & Security	3,006.8	(20.0)	3,759.1	(17.4)	4,550.9
Golf	1,218.3	(11.0)	1,368.9	(2.6)	1,405.4
NET SALES	$ 6,694.7	(12.0)%	$ 7,608.9	(11.1)%	$ 8,563.1

	Operating Income and Net Income				
	Year Ended December 31,				
(In millions)	*2009*	*% Change vs. Prior Year*	2008	% Change vs. Prior Year	2007
OPERATING INCOME:					
Spirits	$ 484.7	(10.9)%	$ 543.7	(29.1)%	$ 766.7
Home & Security	87.0	118.7	(465.6)		503.0
Golf	25.0	(80.0)	125.3	(24.3)	165.5
Corporate expenses	(91.5)	(58.3)	(57.8)	1.9	(58.9)
OPERATING INCOME	$ 505.2	247.0%	$ 145.6	(89.4)%	$ 1,376.3
LESS:					
Interest expense	215.8	(9.0)	237.1	(19.2)	293.6
Other expense (income), net	6.0		(279.9)		(37.5)
Income taxes	36.3	(62.0)	95.6	(72.4)	346.3
INCOME FROM CONTINUING OPERATIONS	$ 247.1	166.3%	$ 92.8	(88.0)%	$ 773.9
Income from discontinued operations			152.5		13.1
NET INCOME	$ 247.1	0.7%	$ 245.3	(68.8)%	$ 787.0
LESS: Noncontrolling interests	4.3	106.5	(65.8)		24.4
NET INCOME ATTRIBUTABLE TO FORTUNE BRANDS CONSOLIDATED	$ 242.8	(22.0)%	$ 311.1	(59.2)%	$ 762.6

Summary

Fortune Brands is a holding company with subsidiaries that make and sell leading consumer branded products worldwide in the following markets: distilled spirits, home and security, and golf products. We strive to enhance shareholder value in a variety of ways, including:

- profitably building leading consumer brands to drive sales and earnings growth and enhance returns on a long-term basis,
- positioning our brands and businesses to outperform their respective markets. We do this by:
  - developing innovative new products and effective marketing programs,
  - expanding customer relationships,

> extending brands into adjacent categories, and

> developing international growth opportunities,

> pursuing business improvements by operating lean and flexible supply chains and business processes,

> promoting organizational excellence by developing winning cultures and associates, and

> leveraging our breadth and balance and financial resources to drive shareholder value.

While our first priority is internal growth, we continue to focus on paying down debt. We also strive to create shareholder value through add-on acquisitions, dispositions and joint ventures. In addition, we enhance shareholder value through other initiatives, such as using our financial resources to pay dividends and repurchase shares.

For a description of certain factors that may have had, or may in the future have, a significant impact on our business, financial condition or results of operations, see Item 1A. Risk Factors.

In 2009, net income attributable to Fortune Brands and diluted earnings per share decreased 22% and 21%, respectively, compared to 2008. Income and diluted earnings per share from continuing operations increased 53% and 55%, respectively.

Sales decreased 12% to $6.7 billion. Sales were unfavorably impacted by:

> the effect of the global economic environment and reduced consumer discretionary spending on all of our businesses,

> the downturn in the U.S. housing products market and its impact on our Home & Security business, and

> unfavorable foreign exchange ($135 million).

Sales benefited from:

> the impact of acquisitions (approximately $106 million)

> successful new products and line extensions in all segments,

> selected price increases in the Spirits and Home & Security businesses, and

> market share gains, principally in the Home & Security and Golf segments.

Income from continuing operations benefited from:

> lower asset impairment charges in 2009 ($66.8 million after tax) compared to 2008 ($659.4 million after tax),

> reduced cost structures,

> lower advertising, selling, and general and administrative expenses ($56.2 million), and

> the absence of write-downs of the Spirits business s investment in Maxxium Worldwide B.V. (Maxxium) recorded in 2008 ($50.5 million).

Income from continuing operations was unfavorably impacted by:

> lower sales and related unfavorable operating leverage, and

> the absence of gains recorded in 2008:

> income due to the termination of the Spirits U.S. distribution agreement and the related deferred gain recognition ($190.8 million after tax in aggregate),

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> income tax-related credits of $98.4 million associated with the favorable resolution of uncertain income tax positions, and

> a gain due to the reduction in the fair value of the noncontrolling interest in the Spirits business ($81.9 million after tax).

In 2009, we paid 49.9 million (approximately $66.2 million, net of cash acquired) to purchase 100% interest in seven subsidiaries of Maxxium, our former international spirits sales and distribution joint venture. In addition, we paid 30.9 million (approximately $41.7 million) to acquire 50% ownership in five Maxxium joint venture entities.

In addition, in 2009, we acquired the EFFEN super-premium vodka brand and related assets from the Sazerac Company, Inc. In conjunction with this transaction, we sold the Old Taylor whiskey brand and assets to Sazerac Company, Inc.

In 2008, we acquired the premium Cruzan rum business from Pernod Ricard S.A. (Pernod Ricard) for $103.2 million in cash. In addition, we repurchased the 10% noncontrolling interest in our Spirits business from Vin & Sprit Group (V&S) for $455.0 million. We also redeemed the 49% interest in our Spirits business s U.S. distribution joint venture held by V&S. In a related transaction, we received $230.0 million from Pernod Ricard for early termination of the U.S. distribution agreement with V&S subsequent to its acquisition by Pernod Ricard.

In 2007, we sold our remaining U.S. wine assets to Constellation Brands for $887.0 million, after selling two wine brands and related assets to E. & J. Gallo Winery. In addition, in 2007, we sold the U.S. distribution rights and related assets for The Dalmore Scotch Whisky for $58.0 million, resulting in a gain on the sale of $28.5 million, net of tax.

In 2010, we expect to:

> remain focused on our initiatives designed to outperform our markets,

> benefit from the strength of our brands and new products across all segments, and

> continue targeted brand-building investment, as well as innovation and expansion into new markets, including international growth opportunities in all of our segments.

We have also identified certain risks and challenges that may impact our businesses in 2010 including:

> current economic conditions, including the decrease in consumer discretionary spending and consumers trading down to lower-priced products,

> continuing uncertainty with regard to the overall U.S. home products market, and

> changes in foreign exchange rates.

See Item 1A. Risk Factors for a further description of risks and uncertainties that may be material to our businesses.

RESULTS OF OPERATIONS

2009 Compared to 2008

Net Sales

Net sales decreased $914.2 million, or 12%, to $6.7 billion primarily due to:

> the impact of the slowdown in the global economy and reduced consumer discretionary spending on all of our businesses,

> the downturn in the U.S. home products markets and its impact on our Home & Security business, and

> unfavorable foreign exchange (approximately $135 million).

Sales benefited from:

> the impact of acquisitions (approximately $106 million, including Cruzan rum and sales of third party brands within distribution businesses acquired from Maxxium, our former international spirits sales and distribution joint venture),

> newly introduced products and line extensions in all segments,

> selected price increases in the Spirits and Home & Security businesses and

> market share gains, principally in the Home & Security and Golf segments.

Cost of products sold

Cost of products sold decreased $494.3 million, or 12%, primarily due to lower sales across all segments and cost reduction programs in the Home & Security and Golf businesses.

Excise taxes on spirits

Excise taxes on spirits were up 69 basis points as a percentage of sales compared to the prior year due to higher Spirits segment sales as a percentage of total Company sales. Excise taxes are generally levied based on the alcohol content of spirits products and vary significantly by country. Consistent with industry practice, excise taxes collected from customers are reflected in net sales and the corresponding payments to governments in expenses.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses decreased $56.2 million, or 3%, primarily as a result of lower variable sales-related expenses and a decrease in advertising and promotion spending, partly offset by increased operating costs associated with our U.S. and international sales and distribution initiatives in our Spirits business and higher incentive compensation expense.

Amortization of intangible assets

Amortization of intangible assets decreased $15.9 million to $33.7 million due to the impact of intangible asset impairment charges for definite-lived intangible assets in 2008.

Asset impairment charges

In the fourth quarter of 2009, we recorded impairment charges of $92.5 million ($66.8 million after tax) primarily related to indefinite-lived tradenames for Sauza tequila in the Spirits business. The Company remains confident in the long-term growth prospects for our Spirits brands; however, these charges were a result of the combined effect of the current economic downturn on sales in key geographic markets, particularly Mexico and the U.S., and the expectation of more moderate market growth rates for the overall tequila spirits category for the foreseeable future. For additional information, refer to the Results of Operations for the Spirits segment.

In 2008, we recorded pre-tax asset impairment charges in the Home & Security and Spirits businesses of $785.5 million ($659.4 million after tax). The Home & Security charges of $758.3 million

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included write-downs of goodwill, tradenames and other long-lived assets. For additional information, refer to the Results of Operations for the Home & Security segment. In addition, we recorded a $27.2 million write-down of certain non-U.S. regional Spirits tradenames.

Restructuring charges

In the twelve months ended December 31, 2009, we recorded restructuring charges of $81.9 million. These charges related to workforce reductions across all segments ($60.2 million), including the announced closure of seven Home & Security manufacturing facilities in the U.S., the closure of a golf shoe manufacturing facility, and the announced closure of a spirits facility next year. Fixed asset write-downs totaled $10.3 million. In addition, we recorded $11.4 million for lease contract termination and other costs, as well as reductions in general and administrative costs, and charges associated with our Spirits business repositioning.

In the twelve months ended December 31, 2008, we recorded restructuring charges of $81.8 million. Home & Security business charges ($49.5 million in total) primarily related to supply-chain initiatives designed to align costs and capacities with marketplace conditions, including the announced closing of six manufacturing facilities. Charges also included costs to exit from select low-return product offerings ($10.5 million). In addition, we recorded charges in the Spirits business ($32.3 million) related to business repositioning, including supply-chain activities and sales and distribution initiatives in the U.S. and internationally.

Operating income

Operating income increased $359.6 million, or 247%, primarily due to lower asset impairment charges ($693.0 million), and to a lesser degree from reduced cost structures and lower advertising promotion spending. Operating income was unfavorably impacted by lower sales and related adverse operating leverage, higher costs in our Spirits business associated with our enhanced sales and distribution structures, and an unfavorable comparison to a lower level of incentive compensation in 2008.

Interest expense

Interest expense decreased $21.3 million, or 9%, to $215.8 million, primarily due to lower average interest rates.

Other expense (income), net

Other expense increased $285.9 million to net expense of $6.0 million, predominantly due to the absence of the following items recognized in 2008:

> income of $230.0 million from Pernod Ricard for the early termination of Future Brands U.S. spirits distribution agreement,

> $72.0 million of remaining unamortized deferred income from the initial establishment of the Future Brands, and

> deferred income of $20.3 million related to Future Brands as a result of the purchase of the remaining balance of the noncontrolling interest in September 2008.

Other expense (income), net, benefited from a $12.5 million gain on a Maxxium dividend distribution and the absence of a 2008 $50.5 million write-down of our investment in Maxxium that was recorded to reflect our share of a goodwill write-down recorded in the financial statements of Maxxium. Other expense (income), net, also includes non-operating income and expense, such as interest income and transaction gains/losses related to foreign currency-denominated transactions.

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Income taxes

The effective income tax rates for the twelve months ended December 31, 2009 and 2008 were 12.8% and 50.7%, respectively. The 2009 effective tax rate was favorably impacted by higher 2009 restructuring and other charges in the U.S. taxed at a higher rate. In addition, the effective tax rate was favorably impacted by a higher proportion of foreign income in 2009, which is taxed at a lower rate relative to U.S. income. The 2009 income tax rate was also favorably impacted by annual true-up adjustments related to tax returns filed in the current period. The 2009 income tax rate was unfavorably impacted by net tax expense of $13.3 million related to the correction of prior year items. These prior year items, primarily related to goodwill tax benefits, net operating loss carryforwards, and certain deferred tax adjustments, were determined to be immaterial to the years to which they relate.

The 2008 effective income tax rate was favorably impacted by a $98.4 million tax benefit related to the final settlement of the federal income tax audit related to our 2001 2002 federal tax returns, tax credits associated with the conclusion of our 2004 2005 federal tax audit, and non-goodwill impairment and restructuring charges benefited at higher U.S. tax rates. The 2008 effective income tax rate was unfavorably impacted by the absence of a tax benefit on goodwill impairment charges of $451.3 million and a $50.5 million write-down of our investment in the Maxxium joint venture, as well as income associated with the termination of the Spirits business s U.S. distribution agreement at the higher U.S. tax rate.

Noncontrolling interests

Noncontrolling interest expense was $4.3 million in 2009 compared to income of $65.8 million last year. The unfavorable change of $70.1 million was primarily due to the $87.9 million gain recorded in 2008 from a reduction in the fair value of the noncontrolling interest in the Spirits business repurchased in July 2008, partially offset by absence of $9.8 million of preferred dividends paid to the noncontrolling interest and expenses associated with the repurchase of the noncontrolling interest.

Income from continuing operations attributable to common shareholders

Income from continuing operations was $242.8 million, or $1.61 per basic share and $1.60 per diluted share, for the twelve months ended December 31, 2009. These results compared to $158.6 million, or $1.04 per basic share and $1.03 per diluted share, for the twelve months ended December 31, 2008. The $84.2 million increase in income from continuing operations was primarily due to higher operating income as a result of lower asset impairment charges ($592.6 million), as well as 2008 write-downs of the Spirits business s investment in Maxxium ($50.5 million) and the 2009 gain on a Maxxium dividend distribution ($12.5 million). Income from continuing operations was unfavorably impacted by the absence of the following items recognized in 2008:

> income from the termination of the Spirits U.S. distribution agreement and the related deferred gain recognition ($190.8 million after tax in aggregate),

> a gain due to a reduction in the fair value of the noncontrolling interest in the Spirits business ($81.9 million), and

> tax-related credits ($98.4 million).

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2008 Compared to 2007

Net Sales

Net sales decreased $954.2 million, or 11%, to $7.6 billion primarily due to:

> the downturn in the U.S. home products market and its impact on our Home & Security business,

> weak consumer sentiment that reduced demand for discretionary purchases, including its adverse impact on our Home & Security and Golf businesses, and

> lower sales in certain markets in the Spirits business, including the impact of an Australian excise tax increase on ready-to-drink spirit products.

Sales benefited from:

> newly introduced products and line extensions across all businesses (approximately $241 million in total, net of discontinued products),

> price increases implemented to offset higher costs for materials in the Home & Security business, as well as targeted price increases in the Spirits business, and

> growth in international markets in the Golf business.

Cost of products sold

Cost of products sold decreased $519.8 million, or 11%, primarily on lower sales, as well as cost reduction programs, global sourcing initiatives and productivity improvements. These factors were partly offset by adverse operating leverage, as well as higher commodity costs (approximately $85-90 million).

Excise taxes on spirits

Excise taxes on spirits were up 65 basis points as a percentage of sales compared to the prior year due to lower Home & Security sales and higher international spirits sales where we are the obligor as a percentage of spirits sales. Excise taxes are generally levied based on the alcohol content of spirits products. Consistent with industry practice, excise taxes collected from customers are reflected in net sales and the corresponding payments to governments are reflected in expenses.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses decreased $38.0 million, or 2%, primarily due to lower sales-related variable costs and cost reductions in the Home & Security business, partly offset by the costs for organization repositioning and sales and distribution initiatives in the Spirits business, as well as increased brand investment in the Golf business to support growth initiatives.

Amortization of intangible assets

Amortization of intangible assets increased $2.0 million, or 4%, primarily due to changes in foreign currency rates.

Asset impairment charges

We recorded pre-tax asset impairment charges in the Home & Security and Spirits businesses of $785.5 million ($659.4 million after tax). The Home & Security charges of $758.3 million included write-downs of goodwill, tradenames and other long-lived assets. These charges were a result of the impact of a steeper than anticipated decline in the U.S. home products market and the general economy in 2008, as well as the expectation of a slower than previously anticipated recovery. For additional information, refer to the Results of Operations for the Home & Security segment. In addition, we recorded a $27.2 million write-down of certain non-U.S. regional Spirits tradenames in 2008.

Restructuring charges

In the twelve months ended December 31, 2008, we recorded restructuring charges of $81.8 million. Home & Security business charges ($49.5 million in total) primarily related to supply-chain initiatives designed to align costs and capacities with marketplace conditions, including the announced closing of eight manufacturing facilities. Charges also included costs to exit from select low-return product offerings ($10.5 million). In addition, we recorded charges in the Spirits business ($32.3 million) related to business repositioning, including supply-chain activities and sales and distribution initiatives in the U.S. and internationally. In the twelve months ended December 31, 2007, we recorded pre-tax restructuring charges of $73.5 million (Home & Security $70.2 million, Spirits $2.7 million and Golf $0.6 million).

Operating Income

Operating income decreased $1,230.7 million to $145.6 million, primarily due to asset impairment charges of $785.5 million, lower sales in the Home & Security and Golf businesses and resulting adverse operating leverage, higher commodity costs, increased brand investment in the Golf business, and the absence of the 2007 gain on the sale of The Dalmore Scotch Whisky U.S. distribution rights and related assets ($45.6 million). Operating income benefited from new products and line extensions, price increases (implemented to offset higher commodity costs in the Home & Security business and in the Spirits business), cost reduction programs, global sourcing initiatives, and productivity improvements.

Interest expense

Interest expense decreased $56.5 million, or 19%, primarily as a result of lower average debt, as well as lower average interest rates.

Other income, net

Other income, net, increased $242.4 million, predominantly due to $230.0 million of cash received from Pernod Ricard for the early termination of the Spirits U.S. distribution agreement, as well as $72.0 million due to recognition of remaining unamortized deferred income from the initial establishment of the joint venture. These amounts were partially offset by a $50.5 million write-down of our investment in Maxxium. Other income, net, also includes non-operating income and expense, such as interest income and transaction gains/losses related to foreign currency denominated transactions.

Income taxes

The effective income tax rates for the twelve months ended December 31, 2008 and 2007 were 50.7% and 30.9%, respectively. The 2008 effective income tax rate was unfavorably impacted by the absence of a tax benefit on goodwill impairment charges of $451.3 million and a $50.5 million write-down of our investment in the Maxxium joint venture, as well as income associated with termination of the Spirits business s U.S. distribution agreement at the higher U.S. tax rate. The 2008 effective income tax rate was favorably impacted by a $98.4 million tax benefit related to final settlement of the federal income tax audit of our 2001-2002 federal tax returns. Additionally, the effective income tax rate was favorably impacted by tax credits associated with the conclusion of our 2004-2005 federal income tax audit, non-goodwill impairment charges and higher restructuring charges in 2008 benefitted at higher U.S. tax rates, and a higher portion of foreign income taxed at lower statutory rates.

Noncontrolling interests

Noncontrolling interest income was $65.8 million in 2008 compared to expense of $24.4 million in 2007. The favorable change of $90.2 million was primarily due to an $87.9 million gain from a reduction in the fair value of the 10% noncontrolling interest in the Spirits business based upon the final settlement amount determined in connection with our repurchase of the noncontrolling interest in July 2008.

Income from continuing operations attributable to common shareholders

Income from continuing operations was $92.8 million for the twelve months ended December 31, 2008. These results compared to $773.9 million for the twelve months ended December 31, 2007. The $681.1 million decrease in income from continuing operations was primarily due to lower operating income (including asset impairment charges of $659.4 million after tax) and write-downs of the Spirits business s investment in Maxxium ($50.5 million). Income from continuing operations benefited from income due to the termination of the Spirits U.S. distribution agreement and the related deferred gain recognition ($190.8 million after tax in aggregate), as well as a gain due to a reduction in the fair value of the noncontrolling interest in the Spirits business ($81.9 million), lower interest expense and tax-related credits ($98.4 million).

Income from discontinued operations

Income from discontinued operations was $152.5 million for the twelve months ended December 31, 2008, or $1.01 per basic share and $0.99 per diluted share. This included pre-tax income of $4.0 million (after tax $2.5 million) from the settlement of outstanding working capital claims related to the sale of the U.S. Wine business. We also recorded a $43.1 million tax benefit related to finalization of the tax accounting for the sale of the U.S. Wine business and tax credits associated with the conclusion of our 2004-2005 federal income tax audit that pertained to other discontinued operations. In addition, the Congressional Joint Committee on Taxation completed its review of a tax refund associated with a capital loss carryforward item that was favorably resolved in an IRS administrative proceeding relating to our 2001-2002 federal tax returns. As a result, the final settlement of the audit of our 2001-2002 federal tax returns removed uncertainty relating to the utilization of a capital loss carryforward, and we recorded a $98.0 million tax benefit ($98.7 million unrecognized tax benefit less interest of $0.7 million) related to a capital loss carryforward position associated with the sale of the U.S. Wine business. This compared to income from discontinued operations for the twelve months ended December 31, 2007 of $13.1 million, or $0.09 per basic share and $0.08 per diluted share.

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RESULTS OF OPERATIONS BY SEGMENT

Spirits

2009 Compared to 2008

Net sales were flat compared to 2008 on higher U.S. sales offset by lower international sales. Net sales in the U.S. were higher due to the benefit of acquisitions (approximately $106 million, including Cruzan rum and sales of third party brands within distribution businesses acquired from Maxxium), higher pricing, the introduction of new products, and our U.S. distributor program that has resulted in more stable wholesale inventory levels. U.S. net sales were unfavorably impacted by weak industry conditions. International net sales decreased on unfavorable foreign exchange ($51 million). In addition, net sales were lower on a constant currency basis in certain markets largely due to economic weakness in Western Europe and Mexico, the impact of a 2008 Australian excise tax increase on ready-to-drink products, and a change in distributors in Mexico.

Operating income decreased $59.0 million, or 11%, to $484.7 million. Operating income was lower due to higher tradename impairment charges ($92.5 million in 2009 compared to $27.2 million in 2008), increased operating costs associated with our enhanced U.S. and international sales and distribution structures (approximately $40 million) and unfavorable foreign exchange. Operating income benefited from lower advertising and promotional spending, select price increases, and lower restructuring and other charges ($33.3 million).

The Spirits business had indefinite-lived tradenames with a carrying value of $1,905.4 million as of December 31, 2009. In connection with our regular annual impairment testing in the fourth quarter of 2009, we recorded impairment charges of $92.5 million, primarily related to the indefinite-lived tradename for Sauza tequila, reducing the book value of the impaired brands to $782.8 million in aggregate. Because these tradenames were acquired in 2005, their fair value more closely approximates their book value. The Company remains confident in the long-term growth prospects for our Spirits brands; however, generally accepted accounting principles require that indefinite-lived tradenames be valued based on their current fair value. The impairment charges were recorded to reflect a decline in the estimated fair value of these impaired tradenames below their book value in accordance with the authoritative guidance on goodwill and other intangibles assets (ASC 350). For the impaired tradenames, we believe the current fair value has declined below book value primarily due to the combined effect of the current economic downturn on sales in key geographic markets, particularly Mexico and the U.S., and the expectation of more moderate market growth rates for the overall tequila spirits category for the foreseeable future. We estimate fair value using a standard relief-from-royalty method which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party. This method is consistent with the method we have employed in prior periods and the method employed to value the tradenames at the date of their original acquisition. In our methodology, the most important judgments and estimates that influence a tradename s fair value include the expected branded product sales included in our final 2010 to 2012 operating plans, longer-term market growth rates in particular spirits categories and geographies, expected profit margins on products sold using the brands, terminal value revenue growth rates, and the weighted average cost of capital. The Company has certain indefinite-lived tradenames in its Spirits business for which a more than 10% reduction in the fair value would trigger an impairment charge in future periods. These tradenames had an aggregate book value of $865.9 million as of December 31, 2009.

We expect to incur additional restructuring and other charges of approximately $15-20 million over the next twelve to eighteen months related to our previously announced organization repositioning and U.S. supply chain initiatives. These initiatives have been undertaken to align the business closer to customers and consumers and to support brand building and long-term profitable growth.

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In October of 2009, we entered into a long-term agreement with the U.S. Virgin Islands to continue to produce rum on St. Croix. The mutually beneficial agreement is structured to promote increased tax revenue for the U.S. Virgin Islands and to provide cost effective production of rum for our Spirits business.

In September 2008, Beam Global Spirits & Wine, Inc. (BGSW) and The Edrington Group Ltd. (TEG) entered into an agreement establishing an international distribution alliance that is a combination of jointly-owned and Company-owned sales forces in 24 markets. Operations under the new alliance began on April 1, 2009. This alliance simplifies our international routes to market and gives us greater control over our distribution. The alliance provides that BGSW and TEG have joint 50-50 ownership of sales and distribution companies in certain markets and that BGSW wholly-owned or TEG wholly-owned distribution companies distribute both companies products and third party products in certain other markets. Prior to April 1, 2009, BGSW was a 25% partner in the Maxxium international sales and distribution joint venture. The other equal partners in Maxxium were Rémy Cointreau S.A. (Rémy), V&S and TEG. In accordance with a Settlement Agreement executed in September 2008, on March 30, 2009, Rémy and V&S exited the Maxxium joint venture and BGSW became a 50% owner of Maxxium with TEG. BGSW and TEG are facilitating an orderly transition or winding down of Maxxium operations, which is now substantially complete.

Factors that could adversely affect future results in our Spirits business include consumers trading down to lower price points, competitive pricing activities, changes in customer inventory levels in international markets, potential impairment charges, the possibility of future excise and other tax increases globally, regulatory enforcement trends, and reduction of government financial incentives related to our rum production.

2008 Compared to 2007

Net sales decreased $125.9 million, or 5%, to $2,480.9 million, primarily due to the decline in sales from the adverse impact of an unexpected Australian excise tax on ready-to-drink spirits products instituted in April (approximately $47 million), the impact of the wind-down of transitional manufacturing agreements with Pernod Ricard to produce certain products subsequent to a 2005 acquisition (approximately $28 million), the impact of reduced fourth quarter 2008 sales due to a new U.S. distributor program that facilitates lower and more consistent U.S. distributor inventory levels going forward, and unfavorable foreign exchange ($25 million). In addition, economic pressures resulted in lower net sales in certain markets, particularly Spain, Germany and Mexico (approximately $32 million in aggregate). The sales of our portfolio of brands continued to shift toward the premium end, though at a slower rate. In addition, sales benefited from the impact of price and mix (approximately $35 million in aggregate) and the acquisition of Cruzan rum ($12.5 million).

Operating income decreased $223.0 million, or 29%, to $543.7 million, primarily due to lower sales and $63.6 million in restructuring and other charges related to business repositioning, including supply-chain activities and sales and distribution initiatives, as well as absence of the 2007 gain on the sale of The Dalmore U.S. distribution rights and assets ($45.6 million) and a 2008 write-down of certain non-U.S. regional tradenames ($27.2 million). In addition, operating income was impacted by higher operating expenses (approximately $12 million), primarily due to increased information technology costs and U.S. distribution costs.

Home & Security

2009 Compared to 2008

Net sales decreased $752.3 million, or 20%, to $3,006.8 million. The decrease was primarily attributable to the downturn in the U.S. housing and home products market and the U.S. economic recession. These factors resulted in lower repair and remodeling spending, particularly on big-ticket items such as cabinetry and entry doors, and a substantial decrease in new home construction, as well as a mix shift to lower-priced products. Net sales benefited from share gains with key customers, the impact of select price increases, and new products and line extensions.

Operating income increased $552.6 million to income of $87.0 million, primarily due to asset impairment charges recorded in 2008 that did not recur in 2009 ($758.3 million) and cost reduction and supply chain improvements in all areas of the business in 2009. These were partially offset by continuing adverse operating leverage from substantially lower sales and an unfavorable mix shift. Restructuring and other charges were slightly lower in 2009 ($52.0 million in 2009 compared to $55.6 million in 2008). In 2009, we announced the closure of seven additional plants in addition to six closures announced in 2008.

Since December 31, 2006, we have reduced the number of Home & Security segment manufacturing facilities and positions by approximately 40%. Headcount reductions have been implemented across all levels of the organization. We anticipate that these initiatives will generate savings that pay back the cash costs in three years or less. Restructuring and restructuring-related charges for currently approved projects are expected to be approximately $5 million in 2010.

We estimate that the categories of the U.S. home products market in which we compete declined in 2009 in the range of 20%. While we expect the market will be relatively stable in 2010, we may face higher raw material costs, and in the event the market continues to decline, our business may face pressures, including the impact of adverse operating leverage. We will continue to strive to mitigate the impact of the weak market conditions through ongoing cost reductions, as well as through market share gain initiatives, successful extension of brands into new markets, and expanding existing customer relationships.

There were no goodwill or indefinite-lived tradename impairment charges recorded in the Home & Security business in 2009. At December 31, 2009, the Company had long-lived assets in its Home & Security segment that totaled $2,900.3 million, including goodwill and indefinite-lived tradenames of $1,452.7 million and $662.6 million, respectively. The dollar amounts of goodwill and indefinite-lived tradenames associated with each of the reporting units within our Home & Security segment as of December 31, 2009 were as follows:

($ in millions)		Indefinite-lived
Reporting Unit	Goodwill	Tradename
Cabinet products	$ 490.3	$ 216.7
Faucet products	569.7	107.2
Entry door products	142.9	190.0
Window products	84.4	127.0
Storage and security products	165.4	21.7
Total	$ 1,452.7	$ 662.6

While we are confident in the long-term growth and return prospects for this segment, generally accepted accounting principles require us to assess the impairment of goodwill and indefinite-lived tradenames based upon current fair value. Goodwill is assessed at the reporting unit level. Key to estimating the fair value of our long-lived assets is our forecast of the depth and duration of the U.S. home products market downturn, and its impact on future revenues, operating margins and cash flows. Our projection for the U.S. home products market and global economic conditions is inherently subject to a number of uncertain factors, such as the depth and duration of the global economic slowdown, as well as U.S. changes in home prices, unsold homes inventory levels, credit availability and borrowing rates, unemployment levels, and overall consumer confidence. In the near term, as we monitor the above factors, it is possible we may change the revenue and cash flow projections of our

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Home & Security segment, which may require the recording of additional asset impairment charges in accordance with the authoritative guidance on goodwill and other intangible assets, as well as property, plant and equipment. We currently believe that the reporting unit with a higher risk of future goodwill or trade name impairment is our window products reporting unit. This reporting unit is the most recently acquired (in 2006) and therefore has a cost that is closest to the current fair value. For our window products reporting unit, a more than 10% decline in reporting unit fair value could trigger an impairment of goodwill, its tradename or long-lived assets.

In addition, as we continue to respond to the current conditions in the U.S. home products market, it is possible we may initiate restructuring actions to reduce manufacturing capacity and administrative costs, which may result in further impairments of assets.

2008 Compared to 2007

Net sales decreased $791.8 million, or 17%, to $3,759.1 million. The decrease was primarily attributable to the downturn in the U.S. home products market, which deteriorated as the year progressed due to the U.S. economic recession, the credit crisis, decreasing home prices and declining consumer confidence. The combination of these factors contributed to further reductions in new home construction and a shift to lower-priced products, and also adversely impacted big ticket repair and remodeling, which historically has been more stable in housing downturns. Sales benefited from new products and line extensions (approximately $336 million in total, particularly in faucets and cabinetry), continued extension of brands into adjacent product categories, market share gains in key product categories (faucets and security products), and the impact of select price increases.

Operating income decreased $968.6 million resulting in a loss of $465.6 million, primarily due to lower sales and resulting adverse operating leverage, as well as 2008 asset impairment charges of $758.3 million. In addition, operating income was negatively impacted by higher commodity costs (approximately $70 million excluding the benefit of price increases). Operating income benefited from a reduction in manufacturing, overhead and administrative cost structures.

Restructuring and other charges were $55.6 million in 2008 compared to $96.3 million in 2007. Charges in 2008 related to supply-chain realignment, capacity and cost reduction initiatives and the exit of select low return product offerings.

Goodwill impairment charges in Home & Security of $451.3 million in 2008 predominantly related to our Therma-Tru entry door ($399.5 million) and Simonton ($48.8 million) reporting units, our two most recent acquisitions. In the second quarter of 2008, primarily due to the impact of a worse than anticipated decline in the U.S. home products market on financial results, the Company concluded it was necessary, in accordance with authoritative guidance on goodwill (ASC 350) to conduct an interim goodwill impairment test. As a result of this test, the Company recorded goodwill impairment charges totaling $288.9 million. In the fourth quarter, the Company conducted its regular annual goodwill impairment test as of December 31, 2008, and recorded goodwill impairment charges totaling $162.4 million. The fourth quarter charges were primarily the result of the expectation for a slower recovery than previously expected in the U.S. home products market, the current effect of the recession on the market, and our forecasts of the sales, operating income and cash flows of each reporting unit in the Home & Security business that were finalized through the course of our annual planning process.

We forecast the U.S. home products market in two segments: the new home construction segment and the repair/remodel segment. The impairments at Therma-Tru and Simonton occurred because these reporting units are most significantly impacted by new home construction and are the most recently acquired (and therefore have newer historical carrying values). In the Home & Security segment, our reporting units are components one level below the Home & Security operating segment that generally correspond to our major product lines and related brands. For each reporting unit, the goodwill impairment charges were measured as the excess of the carrying value of the goodwill over its implied fair value. The implied fair value of goodwill was estimated based on a hypothetical allocation of each reporting unit s fair value to all of its underlying assets and liabilities in accordance with the authoritative guidance on goodwill and other intangible assets. Consistent with historical practice, the Company estimates the fair value of a reporting unit based on estimate projection of future cash flows discounted at a market-participant-derived weighted-average cost of capital. Our estimate of discounted future cash flows decreased significantly from year-end 2007 primarily due to a reduction of current year forecasted revenues and cash flows compared to our original plan (which resulted in projecting future revenue and cash flow growth off of a significantly lower base) and the shifting of cash flow growth beyond 2008 into later years. As of December 31, 2008, our cash flow projections assumed declining revenue and cash flows in 2009 and that significant recovery would not begin until after 2010. In addition, the fair value declined due to an increase in our weighted-average cost of capital.

Golf

2009 Compared to 2008

Net sales decreased $150.6 million, or 11%, to $1,218.3 million, primarily due to the impact of decreased demand in the U.S. and Western Europe, particularly for golf clubs and custom golf balls, as well as unfavorable foreign exchange ($52 million). Net sales benefited from market share gains and a double-digit percentage increase in constant currency sales in Asian markets.

Operating income decreased $100.3 million, or 80%, to $25.0 million primarily due to lower sales and related unfavorable operating leverage, restructuring and other charges of $35.2 million, mainly related to workforce reductions and the closure of a footwear manufacturing facility, unfavorable foreign currency ($21 million), and higher incentive compensation expense. Operating income benefited from cost recovery actions and lower operating expenses, including reduced advertising and promotion, and lower discretionary expenses.

While we expect golfers to remain cautious in 2010, we expect the golf industry to benefit from favorable long-term demographic trends, including an aging U.S. population (rounds of play increase with age and retirement), and the increasing popularity of golf internationally.

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. In recent years, both the USGA and the R&A have enacted new rules further restricting the dimensions or performance of golf clubs and golf balls. In March 2005, the USGA and R&A requested that manufacturers participate in a golf ball research project by manufacturing and submitting balls that would conform to an overall distance standard that is 15 to 25 yards shorter than the current standard of 317 yards. More recently, they adopted a rule change to allow greater adjustability in golf clubs, which went into effect January 1, 2008. In August 2008, the USGA and R&A adopted a rule change, effective January 1, 2010, further restricting golf club grooves by reducing the groove volume and limiting the groove edge angle allowable on irons and wedges. This rules change will not apply to most golfers until January 1, 2024. It will be implemented on professional tours beginning in 2010 and then in other elite amateur competitions beginning 2014. All products shipped into the marketplace after December 31, 2010 must comply with the new groove specification. Existing rules and any new rules could change the golf products industry s ability to innovate and deploy new technologies, as well as impact the competitive dynamic among industry participants, potentially impacting our Golf business.

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2008 Compared to 2007

Net sales decreased $36.5 million, or 3%, to $1,368.9 million. The sales decrease was primarily due to soft demand in the U.S., including the impact of lower consumer demand for discretionary purchases such as golf clubs, and the impact of a reduction in inventory by retailers. Net sales benefited from higher constant currency sales in Asian markets ($38 million), favorable foreign exchange ($17 million), and favorable mix ($17 million) as a result of new product introductions and sales of higher margin golf clubs.

Operating income decreased $40.2 million, or 24%, to $125.3 million, primarily due to an increase in brand investment to support growth initiatives, lower sales and resulting adverse operating leverage, higher patent license expense, and increased commodity costs.

Corporate

2009 Compared to 2008

Corporate expenses of $91.5 million, which include salaries, benefits and expenses related to corporate office services and employees, increased $33.7 million primarily due to an unfavorable comparison to a low level of incentive compensation in 2008, pension settlement costs, and expenses associated with the disposition of fixed assets.

2008 Compared to 2007

Corporate expenses of $57.8 million, which include salaries, benefits and expenses related to corporate office services and employees, decreased $1.1 million.

LIQUIDITY AND CAPITAL RESOURCES

While the global credit crisis abated during the course of 2009, general economic conditions remained challenging and volatility in capital and credit markets continued. We believe; however, that we have sufficient liquidity to fund our operations.

Liquidity and Capitalization

Our primary liquidity needs are to support working capital requirements, fund capital expenditures, service indebtedness and pay dividends, as well as finance acquisitions and share repurchases when deemed appropriate. Our principal sources of liquidity are cash flows from operating activities and availability under our credit agreements. Our operating income is generated by our subsidiaries. There are no restrictions on the ability of our subsidiaries, domestic or foreign, to pay dividends or make other distributions to Fortune Brands. We periodically review our portfolio of brands and evaluate strategic options to increase shareholder value. While the current focus of our cash flow is paying down debt, we cannot predict whether or when we may enter into an acquisition, disposition, joint venture or other strategic options, or what impact any such transaction could have on our results of operations, cash flows or financial condition, whether as a result of the issuance of debt or equity securities, or otherwise.

On April 28, 2009, we announced a reduction in the indicative annual dividend rate on our common stock from $1.76 per share to $0.76 per share to align our dividend with our historical payout ratio range. We believe that this was a prudent course of action in the current environment and is in the best long-term interest of our stockholders. This change in dividend rate decreased cash required for dividend payments by $109 million in 2009 and $150 million on an annual basis. We currently expect to pay quarterly cash dividends in the future, but such payments are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth in the section titled Item 1A. Risk Factors.

We currently have an investment grade credit rating from three credit rating agencies. A downgrade of our credit ratings to non-investment grade will modestly increase interest rates on some of our existing corporate debt as well as increase the interest rate on any new debt. In addition, it may impact our access to long-term capital markets and weaken operating cash flow and liquidity, potentially impacting our ability to pay dividends, fund acquisitions and repurchase shares in the future.

Total debt decreased $260.6 million during the twelve-month period ended December 31, 2009 to $4.5 billion. The ratio of total debt to total capital decreased to 46.7% at December 31, 2009 from 50.1% at December 31, 2008, primarily due to our use of cash flow to pay down debt, as well as higher equity due to net income in 2009 and an increase in accumulated other comprehensive income resulting from foreign currency translation effects.

On February 3, 2010, we executed a $750 million, 3-year committed revolving credit agreement to be used for general corporate purposes. This credit facility replaced our existing $2.0 billion, 5-year committed revolving credit agreement that had no balance outstanding as of December 31, 2009. 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 including deferred taxes. Equity excludes any future impairment charges. If these covenants were in existence, at December 31, 2009 and 2008, we would have complied with these ratios by a wide margin. We believe the possibility of violating these covenants is remote. No other debt instruments include financial ratio covenants.

We believe that our committed unused credit facility provides sufficient liquidity to fund our current operating and financing needs. We believe our credit facility was arranged with a strong and diversified group of financial institutions.

In June 2009, we issued long-term debt securities of $500 million under our shelf registration statement filed with the Securities and Exchange Commission. The 6 $^{3}/8$% Notes will mature in June 2014. Proceeds were used to pay down balances on our revolving credit facility. Net proceeds of $496.7 million are less price discounts of $0.3 million and underwriting fees of $3.0 million.

In November 2009, we issued long-term debt securities of $400 million under our shelf registration statement filed with the Securities and Exchange Commission. The 3% Notes mature in June 2012. Proceeds were used to extinguish our three year term loan. Net proceeds of $398.4 million are less price discounts of $0.4 million and underwriting fees of $1.2 million.

Cash Flows

Net cash provided by operating activities was $866.3 million for the twelve months ended December 31, 2009 compared to $817.6 million for the twelve months ended December 31, 2008. The increase in cash provided of $48.7 million was principally due to lower working capital due to the decrease in sales and working capital improvement initiatives across our businesses.

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Net cash used for investing activities for the twelve months ended December 31, 2009 was $213.2 million, compared to $274.2 million in the twelve months ended December 31, 2008. The decrease in cash used of $61.0 million was primarily due to the return of our investment from Maxxium ($58.4 million), and lower capital spending ($18.8 million), partly offset by higher spending for acquisitions ($16.5 million). The total cost of acquisitions in 2009 ($121.9 million) primarily consisted of approximately $66.2 million to purchase 100% interest in seven subsidiaries of Maxxium (our former international spirits sales and distribution joint venture), approximately $41.7 million to acquire 50% ownership in five other Maxxium joint venture entities, and the acquisition of EFFEN vodka. This compares to 2008 s cost of acquisitions of $105.4 million, of which $103.2 million related to the acquisition of Cruzan rum.

Net cash used by financing activities for the twelve months ended December 31, 2009 was $432.3 million, compared with $555.8 million in the twelve month period ended December 31, 2008. The decrease of $123.5 million was primarily due to the absence of the 2008 redemption of the 10% noncontrolling interest in the Spirits business ($455.0 million) and 2008 share repurchases ($278.6 million), as well as lower dividends ($109.0 million), partly offset by higher repayments of debt ($674.6 million, net of issuance of debt).

Dividends

A summary of 2009 dividend activity for the Company s common stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.44 per share	January 28, 2009	February 11, 2009	March 2, 2009
$0.19 per share	April 27, 2009	May 13, 2009	June 1, 2009
$0.19 per share	July 28, 2009	August 12, 2009	September 1, 2009
$0.19 per share	October 1, 2009	November 4, 2009	December 1, 2009

A summary of 2009 dividend activity for the Company s $2.67 Convertible Preferred stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.6675 per share	January 28, 2009	February 11, 2009	March 10, 2009
$0.6675 per share	April 27, 2009	May 13, 2009	June 10, 2009
$0.6675 per share	July 28, 2009	August 12, 2009	September 10, 2009
$0.6675 per share	October 1, 2009	November 4, 2009	December 10, 2009

Adequacy of Liquidity Sources

Given the uncertainty of global economic conditions and volatility in financial markets, we are focused on liquidity and capital preservation. We will continue to assess economic conditions as we evaluate funding of potential acquisitions, share repurchases and our dividend policy. We believe that our internally generated funds, together with access to global credit markets, are adequate to meet our long-term and short-term capital needs.

Our cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those in the section titled Item 1A. Risk Factors.

Customer Credit Risk

We routinely grant unsecured credit to customers in the normal course of business. Accounts receivables were $949.0 million as of December 31, 2009 and are recorded at their stated amount less allowances for discounts, doubtful accounts and returns. Allowances for doubtful accounts include provisions for certain customers where a risk of default has been specifically identified as well as provisions determined on a general formula basis when it is determined that some default is probable and estimable but not yet clearly associated with a specific customer. The assessment of likelihood of customer default is based on a variety of factors, including the length of time the receivables are past due, the historical collection experience and existing economic conditions. In accordance with our policy, our allowance for discounts, doubtful accounts and returns was $72.0 million and $57.5 million as of December 31, 2009 and 2008, respectively. The current conditions in the global economy and credit markets may reduce our customers ability to access sufficient liquidity and capital to fund their operations and make our estimation of customer defaults inherently uncertain. While we believe current allowances for doubtful accounts are adequate, it is possible that continued weak economic conditions may cause significantly higher levels of customer defaults and bad debt expense in future periods.

Counterparty Risk

The counterparties to derivative contracts are major financial institutions. Although our theoretical risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring losses is unlikely and that the losses, if any, would be immaterial. The fair value of derivative assets at December 31, 2009 was $19.9 million. The estimated fair value of derivative contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Pension Plans

We sponsor defined benefit pension plans that are partially funded by a portfolio of investments maintained within benefit plan trusts. Total pension plan cash contributions were $26.4 million and $114.5 million, respectively, in 2009 and 2008. We believe that we have sufficient liquidity to meet the minimum funding required by the U.S. Pension Protection Act of 2006. As of December 31, 2009, the fair value of our total pension plan assets was $821.7 million, representing 82% of the accumulated benefit obligation liability. 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, held as treasury stock, with a fair value of $67.9 million.

Foreign Exchange

We have investments in various foreign countries, principally Australia, Canada, Mexico, Spain, the U.K. and France. Therefore, changes in the value of the related currencies affect our balance sheet and cash flow statements when translated into U.S. dollars. In addition, in 2006 we issued euro-denominated long-term debt. See Note 7, Debt and Financing Arrangements, to the Consolidated Financial Statements, Item 8 of this Form 10-K.

Interest Rates

We may, from time to time, enter into interest rate swap agreements to manage our exposure to interest rate changes. Swap agreements involve the exchange of fixed and variable interest rate payments without exchanging the notional principal amount. In the fourth quarter of 2009, we entered into fixed to floating interest rate swaps with an aggregate notional principal amount of $400 million. In the second quarter of 2009, we entered into interest rate swaps with an aggregate notional principal amount of $500 million. Interest rate swaps outstanding at December 31, 2009 had a notional value totaling $900 million. 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). In the second quarter of 2008, we entered into fixed to floating interest rate swaps with an aggregate notional principal amount of $400 million. In October 2008, we terminated and settled the 2008 interest rate swap agreements and recorded a $15.6 million gain that is being amortized to income as reduction of interest expense over the remaining life of the debt using the effective interest method. There were no interest rate swaps outstanding as of December 31, 2008 and there were no interest rate swaps outstanding during 2007.

The fair market value of long-term fixed interest rate debt is impacted by interest rate risk and credit risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of our $4,413.3 million and $4,693.6 million total long-term debt (including current portion) at December 31, 2009 and 2008 was approximately $4,433.0 million and $4,383.6 million, respectively. The fair value is determined from quoted market prices, where available, and from investment bankers using current interest rates considering credit ratings and the remaining terms to maturity.

Guarantees and Commitments

As of March 31, 2009, we terminated our guarantees related to the debt of Maxxium, our Spirits business s former international sales and distribution joint venture. Since April 1, 2009, we have been providing similar guarantees of 50% of the credit facilities of Maxxium España S.L., which expire in less than two years, in the amount of 11 million (approximately $15.7 million), reflecting our ownership in the joint venture with TEG. As of December 31, 2009, 6.5 million (approximately $9.3 million) was outstanding. The liability related to these guarantees was not material.

BGSW and TEG have also executed an uncommitted multi-currency Shareholder Loan Facility in the amount of 30 million (approximately $42.9 million) for BGSW/TEG joint ventures, of which our share is 50%. Our share of the outstanding balance as of December 31, 2009 was £5 million (approximately $8.1 million).

We also guaranteed various leases for ACCO World Corporation, the Office business divested in a spin-off in 2005. We will continue to guarantee payment of certain real estate leases, with lease payments totaling approximately $22.6 million, through April 2013. As a result, we have recorded the fair value of these guarantees on our financial statements. The liability related to this guarantee was $0.4 million as of December 31, 2009.

Contractual Obligations and Other Commercial Commitments

The following table and discussion represent our obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees, as of December 31, 2009.

(In millions)	Payments Due by Period as of December 31, 2009				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short-term borrowings	$ 51.3	$ 51.3	$	$	$
Long-term debt	4,413.3		1,146.4	1,532.5	1,734.4
Operating leases	193.3	56.0	78.0	44.3	15.0
Interest payments on long-term debt	1,711.1	227.7	391.2	294.7	797.5
Purchase obligations[a]	827.5	356.7	178.6	127.2	165.0
Pension and postretirement contributions[b]	18.1	18.1			

[a] Purchase obligations include: contracts for raw material and finished goods purchases; advertising, selling and administrative services; and capital expenditures.

[b] Minimum required pension and postretirement contributions cannot be determined beyond 2010.

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Due to the uncertainty of the timing of settlement with taxing authorities, we are unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits. Therefore, $460.5 million of unrecognized tax benefits as of December 31, 2009 have been excluded from the Contractual Obligations table above. See Note 15, Income Taxes, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

In addition to the contractual obligations and guarantees and commitments listed and described above, we also had other commercial commitments for which we are contingently liable as of December 31, 2009. Other corporate commercial commitments include Standby Letters of Credit of $83.0 million, of which $46.2 million expires in less than one year with the remaining $36.8 million expiring in one to three years; and Surety Bonds of $30.3 million all of which expires in less than one year. These contingent commitments are not expected to have a significant impact on our liquidity.

Derivative Financial Instruments

In accordance with authoritative guidance on derivatives and hedging (ASC 815), all derivatives are recognized as either assets or liabilities on the balance sheet and the measurement of those instruments is at fair value. If the derivative is designated as a fair value hedge and is effective, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the statement of income when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Derivative gains or losses included in OCI are reclassified into earnings at the time the forecasted revenue or expense is recognized. During the year ended December 31, 2009, deferred currency gains of $22.0 million were reclassified to earnings. During the year ended December 31, 2008, $3.9 million in deferred currency gains were reclassified to earnings. During the year ended December 31, 2007, $15.4 million in deferred currency losses were reclassified to earnings. Based on the foreign exchange rates at December 31, 2009, we estimate that $10.5 million of currency derivative losses included in OCI as of December 31, 2009 will be reclassified to earnings within the next twelve months.

Foreign Currency Risk

Certain forecasted transactions, assets and liabilities are exposed to foreign currency risk. Principal currencies hedged include the U.S. dollar, the euro, the Australian dollar, the Canadian dollar and the Japanese yen. We are also exposed to foreign currency risk as a result of our euro-denominated debt. We continually monitor our foreign currency exposures in order to maximize the overall effectiveness of our foreign currency hedge positions.

Interest Rate Risk

We may, from time to time, enter into interest rate swap agreements to manage our exposure to interest rate changes. We also may, from time to time, enter into treasury rate locks and interest rate swaps to hedge the risk associated with fluctuation in interest rates related to anticipated issuances of new long-term debt. See Note 8, Financial Instruments, to the Consolidated Financial Statements, Item 8 to this Form 10-K, for more information about the management of our interest rate risk.

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Recently Issued Accounting Standards

Accounting Standards Codification

In July 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The ASC supersedes all existing non-SEC accounting and reporting standards and is not intended to change GAAP. The use of the ASC was effective for financial statements issued for periods ending after September 15, 2009.

Transfer of Financial Assets

In June 2009, the FASB amended the existing authoritative guidance on transfer of financial assets (ASC 860). The new guidance a) eliminates of the concept of a qualifying special-purpose entity, b) clarifies and changes derecognition criteria for a transfer, and c) enhances disclosure of risks for which a transferor retains exposure due to continuing involvement in transferred financial assets. The amendment is effective for annual reporting periods beginning after November 15, 2009 (calendar year 2010 for Fortune Brands). If in effect in calendar year 2009, ASC 860 would have had no current impact on our financial statements or disclosure.

Consolidation of Variable Interest Entities

In June 2009, the FASB amended the existing authoritative guidance on variable interest entities (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 annual reporting periods beginning after November 15, 2009 (calendar year 2010 for Fortune Brands). We do not believe that adoption of this standard will have a material 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.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements, Item 8 to this Form 10-K. The Consolidated Financial Statements are prepared in conformity with U.S. GAAP. Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods. We believe the following are the Company s critical accounting policies due to the more significant, subjective and complex judgments and estimates used when preparing our consolidated financial statements. We regularly review our assumptions and estimates.

Allowances for Doubtful Accounts

Trade receivables are recorded at the stated amount, less allowances for discounts, doubtful accounts and returns. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers potential insolvency), or discounts related to early payment of accounts receivables by our customers. The allowances include amounts for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for customer defaults on a general formula basis when it is determined the risk of some default is probable and estimable, but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical experience and existing economic conditions. In accordance with this policy, our allowance for discounts, doubtful accounts and returns for continuing operations was $72.0 million and $57.5 million as of December 31, 2009 and 2008, respectively.

Inventories

The first-in, first-out inventory method is our principal inventory method across all segments. In accordance with generally recognized trade practice, maturing spirits inventories are classified as current assets, although the majority of these inventories ordinarily will not be sold within one year due to the duration of aging processes. Inventory provisions are recorded to reduce inventory to the lower of cost of market value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory turns, product spoilage and specific identification of items, such as product discontinuance or engineering/material changes.

Long-lived Assets

In accordance with authoritative guidance on property, plant, and equipment (ASC 360), a long-lived asset (including amortizable identifiable intangible assets) or asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market participant basis.

Goodwill and Indefinite-lived Intangible Assets

In accordance with authoritative guidance on goodwill and other intangibles assets (ASC 350), goodwill is tested for impairment at least annually, and written down when impaired. An interim impairment test is required if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

We evaluate the recoverability of goodwill by estimating the future cash flows of the reporting units to which the goodwill relates, and then discount the future cash flows at a market-participant-derived weighted-average cost of capital. In determining the estimated future cash flows, we consider current and projected future levels of income based on management s plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. A reporting unit is an operating segment, or in the case of the Home & Security segment, one level below the operating segment. When the estimated fair value of a reporting unit is less than its carrying value, we measure and recognize the amount of the goodwill impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying value of a reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of a reporting unit is estimated based on a hypothetical allocation of each reporting unit s fair value to all of its underlying assets and liabilities in accordance with the requirements of ASC 350.

ASC 350 requires that purchased intangible assets other than goodwill be amortized over their useful lives unless those lives are determined to be indefinite. Certain of our tradenames have been assigned an indefinite life as we currently anticipate that these tradenames will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at each reporting period to determine whether the indefinite useful life is appropriate. We review indefinite-lived intangible assets for impairment annually, and whenever market or business events indicate there may be a potential impairment of that intangible. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. We measure fair value using the standard relief-from-royalty approach which estimates the present value of royalty income that could hypothetically earned by licensing the brand name to a third party over the remaining useful life.

The Company cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived 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.

Pension and Postretirement Benefit Plans

We provide a range of benefits to our employees and retired employees, including pension, postretirement, post-employment and health care benefits. We record amounts relating to these plans based on calculations specified by U.S. GAAP, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. We use a market-related value method of plan assets to calculate pension costs, recognizing each year s asset gains or losses over a five-year period. Compensation increases reflect expected future compensation trends. The discount rate used to measure obligations is based on a spot-rate yield curve that matches projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The expected return on plan assets is determined based on the nature of the plans investments and our expectations for long-term rates of return. The bond portfolio used for the selection of the interest rates is from the top quartile of bonds rated by nationally recognized statistical rating organizations, and includes only non-callable bonds and those that are deemed to be sufficiently marketable with a Moody s credit rating of Aa or higher. The weighted-average discount rate for pension and postretirement benefit liabilities as of December 31, 2009 and 2008 was 5.9% and 6.5%, respectively.

As required by U.S. GAAP, the effects of actuarial deviations from assumptions are generally accumulated and, if over a specified corridor, amortized over the average remaining service period of the employees. The weighted average remaining service period for the pension plans at December 31, 2009 was approximately 10.4 years. The cost or benefit of plan changes, such as increasing or decreasing benefits for prior employee service (prior service cost), is deferred and included in expense on a straight-line basis over the average remaining service period of the related employees. The total net actuarial losses for all pension and postretirement benefit plans were $429 million at December 31, 2009, a decrease of $18 million from December 31, 2008, primarily as a result of amortization of loss recognition in pension expense ($12 million) and recognition of curtailments and settlements ($15 million), partly offset by net actuarial losses in 2009 ($9 million). We believe that the assumptions utilized in recording our obligations under the Company s plans are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect the Company s financial position or results of operations. For postretirement benefits, our health care trend rate assumption is based on historical cost increases and expectations for long-term increases. As of December 31, 2009, for postretirement medical and prescription drugs, our assumption was an assumed rate of increase of 7.5% in the next year, declining 50 basis points a year until reaching an ultimate assumed rate of increase of 5% per year. Our assumption as of December 31, 2008, for postretirement medical, was an assumed rate of increase of 6.75% in the next year, declining 75 basis points a year until reaching an ultimate assumed rate of increase of 5% per year, and, for postretirement prescription drugs, an assumed rate of increase of 9.75% in the next year, declining 75 basis points a year until reaching an ultimate assumed rate of increase of 5% per year.

Pension expenses were $48.9 million, $32.5 million, $41.8 million, respectively, for the years ended December 31, 2009, 2008 and 2007, including net curtailment and settlement losses of $17.6 million, $2.8 million, and zero for the years ended December 31, 2009, 2008 and 2007, respectively. Postretirement expenses were $7.9 million, $8.8 million and $9.3 million, respectively, for the years ended December 31, 2009, 2008 and 2007, including net curtailment gains of $0.1 million, $2.6 million, and $2.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. A 25 basis point change in our discount rate assumption would lead to an increase or decrease in our pension expense and postretirement benefit expense of approximately $4.1 million and $0.2 million, respectively, for 2009. A 25 basis point change in the long-term rate of return on plan assets used in accounting for the Company s pension plans would have a $2.4 million impact on pension expense.

Income Taxes

In accordance with authoritative guidance on income taxes (ASC 740), we establish deferred tax liabilities or assets for temporary differences between financial and tax reporting bases and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. The Company records a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We do not provide deferred income taxes on undistributed earnings of foreign subsidiaries that we expect to permanently reinvest or on foreign subsidiary earnings that will be remitted without incremental taxes.

We record liabilities for uncertain income tax positions based on a two step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, zero tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from the Company s estimates. In future periods, changes in facts, circumstances, and new information may require the Company to change the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recorded in results of operations and financial position in the period in which such changes occur. As of December 31, 2009, the Company has liabilities for unrecognized tax benefits pertaining to uncertain tax positions totaling $460.5 million. It is reasonably possible the unrecognized tax benefits may decrease in the range of $85 to $140 million in the next 12 months primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

Customer Program Costs

Customer programs and incentives are a common practice in many of our businesses. These businesses incur customer program costs to obtain favorable product placement, to promote sell-through of that business s products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are generally accounted for in either net sales or the category advertising, selling, general and administrative expenses at the time the program is initiated and/or the revenue is recognized. The costs recognized in net sales include, but are not limited to, general customer program generated expenses, cooperative advertising programs, volume allowances and promotional allowances. The costs typically recognized in advertising, selling, general and administrative expenses include point of sale materials and shared media. These costs are recorded at the latter of the time of sale or the implementation of the program based on management s best estimates. Estimates are based on historical and projected experience for each type of program or customer. Volume allowances are accrued based on management s estimates of customer volume achievement and other factors incorporated into customer agreements, such as new product purchases, store sell-through, merchandising support, levels of returns and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations).

Cost Initiatives

We continuously evaluate the productivity of our supply chains and existing asset base, and actively seek to identify opportunities to improve our cost structure. Future opportunities may involve, among other things, the reorganization of operations, the relocation of manufacturing or assembly to locations generally having lower costs and the efficient sourcing of products or components from third-party suppliers. Implementing any significant cost reduction and efficiency opportunities could result in charges.

Pending Litigation

See Note 24, Pending Litigation, to the Consolidated Financial Statements, Item 8 to this Form 10-K.

Environmental Matters

We are involved in numerous remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. As of February 1, 2010, several of our subsidiaries had been designated as potentially responsible parties (PRP) under Superfund or similar state laws in 51 instances. Of these instances, 37 have been dismissed, settled or otherwise resolved. In calendar year 2009, we were identified as a PRP in one new instance, and six PRP claims were dismissed, settled or otherwise resolved. The average settlement was approximately $7,333. In most instances where we are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other responsible parties or insurance, will not have a material adverse effect upon our results of operations, cash flows or financial condition. At December 31, 2009 and 2008, we had accruals of $24.5 million and $29.1 million, respectively, to cover environmental compliance and clean up including, but not limited to, the above mentioned Superfund sites.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

We are exposed to various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We enter into financial instruments to manage and reduce the impact of changes in interest rates, foreign currency exchange rates and commodity prices. The counterparties are major financial institutions.

Interest Rate Risk

The disclosure about interest rate risk required to be provided under this item is set forth under Item 7 Management s Discussion and Analysis Liquidity and Capital Resources Interest Rates and is incorporated herein by reference.

A hypothetical 100 basis point change in interest rates affecting the Company s variable rate borrowings would impact pre-tax interest expense by $9.9 million.

Foreign Exchange Rate Risk

We enter into forward foreign exchange contracts principally to hedge currency fluctuations in transactions denominated in foreign currencies, thereby limiting our risk that would otherwise result from changes in exchange rates. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions. We periodically enter into forward foreign exchange contracts to hedge a portion of our net investments in foreign subsidiaries.

As indicated in the analysis that follows, the estimated potential loss under foreign exchange contracts from movement in foreign exchange rates would not have a material impact on current results of operations or financial condition. As part of our risk management procedure, we use a value-at-risk (VAR) computation to estimate the potential economic loss that we could incur from adverse changes in foreign exchange rates. The VAR estimations are intended to measure the maximum amount of our loss from foreign exchange contracts due to adverse market movements in foreign exchange rates, given a specified confidence level, over a given period of time. The VAR model uses historical foreign exchange rates to estimate the volatility and correlation of these rates in future periods. It estimates a loss in fair market value using statistical modeling techniques. Also, the use of the VAR model should not be construed as an endorsement of the VAR model or the accuracy of the related assumptions.

The following table summarizes our estimated loss under the VAR model as of December 31, 2009 and 2008, respectively. The decrease in the VAR results from more foreign exchanges contracts and greater volatility in the foreign exchange markets.

(In millions)	Estimated Amount of Loss	Period	Confidence Level
2009 foreign exchange	$ 5.5	1 day	95%
2008 foreign exchange	$ 7.2	1 day	95%

The 95% confidence interval signifies our degree of confidence that actual losses under foreign exchange contracts would not exceed the estimated losses shown above. The amounts shown here disregard the possibility that foreign currency exchange rates could move in our favor. The VAR model assumes that all movements in the foreign exchange rates will be adverse. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets.

The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Commodity Price Risk

We are subject to commodity price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. From time to time, we use derivative contracts to manage our exposure to commodity price volatility.

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Item 8. Financial Statements and Supplementary Data.

Consolidated Statement of Income Fortune Brands, Inc. and Subsidiaries

	For years ended December 31		
(In millions, except per share amounts)	*2009*	2008	2007
NET SALES	$ 6,694.7	$ 7,608.9	$ 8,563.1
Cost of products sold	3,550.5	4,044.8	4,564.6
Excise taxes on spirits	489.3	503.8	510.9
Advertising, selling, general and administrative expenses	1,941.6	1,997.8	2,035.8
Amortization of intangible assets	33.7	49.6	47.6
Restructuring charges	81.9	81.8	73.5
Asset impairment charges	92.5	785.5	
Gain on the sale of The Dalmore Scotch Whisky assets			(45.6)
OPERATING INCOME	505.2	145.6	1,376.3
Interest expense	215.8	237.1	293.6
Other expense (income), net	6.0	(279.9)	(37.5)
Income from continuing operations before income taxes	283.4	188.4	1,120.2
Income taxes	36.3	95.6	346.3
Income from continuing operations, net of tax	$ 247.1	$ 92.8	$ 773.9
Income from discontinued operations, net of tax		152.5	13.1
Net income	$ 247.1	$ 245.3	$ 787.0
Less: Noncontrolling interests	4.3	(65.8)	24.4
NET INCOME ATTRIBUTABLE TO FORTUNE BRANDS	$ 242.8	$ 311.1	$ 762.6
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Income from continuing operations, net of tax	$ 242.8	$ 158.6	$ 749.5
Income from discontinued operations, net of tax		152.5	13.1
Net income attributable to Fortune Brands	$ 242.8	$ 311.1	$ 762.2
EARNINGS PER COMMON SHARE			
Basic			
Continuing operations	$ 1.61	$ 1.04	$ 4.89
Discontinued operations		1.01	0.09
Net income attributable to Fortune Brands common shareholders	$ 1.61	$ 2.05	$ 4.98
Diluted			
Continuing operations	$ 1.60	$ 1.03	$ 4.79
Discontinued operations		0.99	0.08
Net income attributable to Fortune Brands common shareholders	$ 1.60	$ 2.02	$ 4.87
DIVIDENDS PAID PER COMMON SHARE	$ 1.01	$ 1.72	$ 1.62
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	150.3	151.7	153.1
Diluted	151.8	153.7	156.5

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Fortune Brands, Inc. and Subsidiaries

	December 31	
(In millions, except per share amounts)	*2009*	2008
ASSETS		
Current assets		
Cash and cash equivalents		