FORTUNE BRANDS INC
Form 10-K/A
February 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

Filing Date: February 14, 2006

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission file number 1-9076

Fortune Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3295276**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

300 Tower Parkway, Lincolnshire, IL 60069-3640

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $3.125 per share	New York Stock Exchange, Inc.
$2.67 Convertible Preferred Stock, without par value	New York Stock Exchange, Inc.
8 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 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/A or any amendment to this Form 10-K/A. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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, 2004 (the last day of our most recent second quarter), was $10,877,245,399.39. The number of shares outstanding of registrant s common stock, par value $3.125 per share, at February 10, 2005, was 144,886,374.

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DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant held on April 26, 2005 (the 2005 Proxy Statement) is incorporated by reference into Part III hereof.

EXPLANATORY STATEMENT

This Amendment No. 1 on Form 10-K/A which amends and restates the Company s Form 10-K for the year ended December 31, 2004, initially filed with the Securities and Exchange Commission (the SEC) on March 14, 2005 (the Original Filing), is being filed to reflect the restatement of the financial statements for the years ended December 31, 2004, 2003 and 2002 and the related disclosures.

This restatement is to recognize deferred tax liabilities primarily on identifiable intangible assets acquired prior to 1993. All adjustments are non-cash and are immaterial to the company s results of operations for 2004 and 2003. For the years 2002, 2001 and 2000, these non-cash adjustments result in higher deferred tax liabilities, lower stockholders equity and higher results of operations in each of these years.

This Amendment No. 1 also amends and restates the Company s Form 8-K filed with the SEC on January 5, 2006 (the 8-K Filing), which included Management s Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements and accompanying notes, presenting the 2005 spin-off of ACCO World Corporation as a discontinued operation in accordance with Statement of Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets.

This Form 10-K/A sets forth the Original Filing in its entirety for the convenience of the reader. However, this 10-K/A solely amends and restates certain information in Items 1 and 2 of Part I; Items 6, 7, 8 and 9 of Part II; and Item 15 of Part IV of the Original Filing. This Form 10-K/A also refiles the Exhibit 12 regarding the ratio of earnings to fixed charges and updates all CEO and CFO certifications.

During the preparation of our 2005 financial statements, it was determined that the Company did not establish deferred taxes for certain identifiable intangibles acquired prior to the implementation of FAS 109, Accounting for Income Taxes, which was effective for our fiscal year beginning January 1, 1993. In addition, the Company did not appropriately record certain deferred tax liabilities on intangible assets acquired subsequent to the implementation of FAS 109. This restatement corrects the accounting for the errors and includes the rollforward effect of the restatement on stockholders equity, including the tax benefit of intangible asset write-offs and intangible asset amortization in 2000, 2001 and 2002. This restatement also corrects the prior period in which deferred tax liabilities were incorrectly recorded for intangible assets acquired subsequent to the implementation of FAS 109. The effect of the restatement on the Company s net income, earnings per share and financial condition is immaterial for all periods presented. We have also restated the 2002 statement of cash flows to reflect the changes in deferred tax liabilities and net income from the above corrections. These restatements are collectively called the restatement.

This 10-K/A sets forth the Original Filing in its entirety and amends and restates certain information in Part II Item 6 (Selected Financial Data) for both the restatement and the presentation of the 2005 spin-off of ACCO World Corporation as a discontinued operation in accordance with FAS 144. This 10-K/A also amends and restates certain information in Part II Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and Item 8 (Financial Statements and Supplemental Data), in each case solely as a result of and to reflect the restatement, and no other information from the 8-K Filing is amended.

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to the Company after the date of the Original Filing (other than the restatement and the discontinued operations), and such forward looking statements should be read in their historical context.

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PART I

Item 1. Business.

(a) General development of business.

Fortune Brands, Inc. is a holding company with subsidiaries engaged in the manufacture, production and sale of Home and Hardware products, Spirits and Wine, 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.

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

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

In 2004:

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

In 2003:

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

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

Home and Hardware acquired:

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

Spirits and Wine acquired:

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

Acquisitions and joint ventures from 2000-2002 were:

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

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

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

Another aspect of our strategy is to continuously improve the productivity, as well as cost and asset structures of our businesses. Cost-reduction opportunities resulted in pre-tax restructuring charges of $9.8 million, $2.2 million and $11.6 million in 2004, 2003 and 2002, respectively.

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Cautionary Statement

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

- changes in general economic conditions,
- foreign exchange rate fluctuations,
- changes in interest rates,
- changes in commodity costs,
- returns on pension assets,
- competitive product and pricing pressures,
- trade consolidations,
- the impact of excise tax increases with respect to distilled spirits,
- regulatory developments,
- the uncertainties of litigation,
- changes in golf equipment regulatory standards,
- the impact of weather, particularly on the Home & Hardware and Golf businesses,
- increases in health care costs,

as well as other risks and uncertainties detailed from time to time in the Company s Securities and Exchange Commission filings.

(b) Financial information about industry segments.

See Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K/A.

(c) Narrative description of business.

The following is a description of the business of the subsidiaries of the Company in the industry segments of Home & Hardware, Spirits & Wine and Golf. For financial information about these industry segments, see Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K/A.

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Home and Hardware

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

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

Moen manufactures and/or sells faucets, bath furnishings, accessories, parts and kitchen sinks in North America and East Asia. Sales are made through Moen s own sales force and independent manufacturers representatives primarily to wholesalers, mass merchandisers and home centers and also to industrial distributors and original equipment manufacturers. Products are sold principally in the U.S. and Canada and also in East Asia, Mexico and Latin America. Moen s chief competitors include Masco, Black & Decker, Kohler, American Standard and imported private-label brands. Moen is the #1 faucet brand in North America.

In November 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc., a leading manufacturer of residential entry door systems in the United States. This acquisition fits our strategic focus on leading brands, shares beneficial demographics and market fundamentals with our other Home and Hardware brands, and creates valuable synergies within our Home and Hardware business. The purchase was financed through the issuance of commercial paper and subsequently partially refinanced through the issuance of long-term debt securities. See Note 7, Long-Term Debt, to the Consolidated Financial Statements. Results of operations have been included in the Company s consolidated financial statements as of the acquisition date.

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

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

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

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

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

Spirits and Wine

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

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

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

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

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

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

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

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

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

The distilled spirits business is highly competitive, with many brands sold in the consumer market. JBBW is the largest U.S.-based producer and marketer of distilled spirits and is among the major competitors worldwide. JBBW s subsidiaries compete on the basis of product quality, price, service and innovation in response to consumer preferences. Major competitors include Diageo, Allied Domecq, Pernod Ricard, Brown-Forman, Bacardi and Constellation Brands. JBBW has the #1 bourbon and #1 small batch bourbon worldwide. DeKuyper is the #1 cordial in the U.S.

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

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

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

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

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

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

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

Golf

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

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

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

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

There is currently a substantial market in knock-off and counterfeit golf clubs, which imitate or copy the protected features of original equipment manufacturers golf club products. Acushnet has an active program of enforcing intellectual property rights against those who make or sell these products.

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

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

Other Matters

Employees

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

Home and Hardware	21,171

Spirits and Wine	1,284
Golf	4,910
Corporate Office	111
Total	27,476

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Environmental Matters

The Company and its subsidiaries are subject to federal, state and local laws and regulations concerning the discharge of materials into the environment and the handling, disposal and clean-up of waste materials and otherwise relating to the protection of the environment. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company s subsidiaries may undertake in the future. Management of the Company does not expect compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, to have a material adverse effect upon our capital expenditures, financial condition, results of operations or competitive position.

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

Our subsidiaries operate in the United States, Canada, Australia, and Europe (principally the U.K.). See Note 19, Information on Business Segments, to the Consolidated Financial Statements, Item 8 to this Form 10-K/A. The primary risk of our investments in various foreign countries, principally the Canada, Australia and the United Kingdom, is to changes in the value of the currencies of these countries and the effect on our financial statements when translated into U.S. dollars.

Web Site Access to SEC Reports

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

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 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.

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Item 2. Properties.

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

	Manufacturing Plants		Distribution Centers		Warehouses		Other	
Segment	**Owned**	**Leased**	**Owned**	**Leased**	**Owned**	**Leased**	**Owned**	**Leased**
Home and Hardware								
U.S.	33	3	1	13	1	8	2	5
Canada	2	2		2		4		1
Mexico	4			1				
Guatemala				1				
Europe	1	2						1
Asia	1							
Spirits and Wine								
U.S.	7		2		9		7	4
Europe								1
Canada	1				1		1	
Australia								1
Golf								
U.S.	5	1	1	2			3	5
Europe			1	3				8
Canada				1				
Asia	2	3	1	7				5
Corporate								
U.S.								1
Asia						2		3
Total U.S.	45	4	4	15	10	8	12	15
Total Non-U.S.	11	7	2	15	1	6	1	20
TOTAL	56	11	6	30	11	14	13	35

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.

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Item 3. Legal Proceedings.

Tobacco Overview

On December 22, 1994, the Company sold The American Tobacco Company (ATCO) to Brown & Williamson Tobacco Corporation (B&W), at the time a wholly owned subsidiary of B.A.T Industries p.l.c. In connection with the sale, B&W and ATCO, which subsequently merged into B&W, agreed, under an Indemnification Agreement, to indemnify the Company against claims including legal expenses arising from smoking and health and fire safe cigarette matters relating to the tobacco business of ATCO.

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

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

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

Individual Cases

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

Class Actions

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

Health Care Cost Recovery Actions

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

Certain Developments Affecting the Indemnitor

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et. al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On November 6, 2000, Florida Circuit Judge Robert Kaye upheld this jury award, and held that the class of plaintiffs eligible to recover damages should be extended to smokers with illnesses diagnosed more than four years before the lawsuit was filed in 1994. On May 21, 2003, a Florida appellate court reversed the jury s verdict and damages award and decertified the class. The Company is not a party to the Engle litigation.

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

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

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

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

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

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

List of Pending Cases

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

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List of Terminated Cases

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

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.

Spirits and Wine Litigation

The Company, its Spirits and Wine business and numerous other manufacturers and importers of beer, spirits and wine are defendants in a purported consolidated class action lawsuit seeking damages and injunctive relief regarding alleged marketing of beverage alcohol to people under the legal purchase age for alcohol. The lawsuit, Eisenberg v. Anheuser-Busch Inc., et al., was filed September 15, 2004 in the U.S. District Court for the Northern District of Ohio. The lawsuit alleges that the defendants have engaged in deceptive marketing practices and schemes targeted at people under the legal purchase age, negligently marketed their products to the underage and fraudulently concealed their alleged misconduct. Plaintiffs seek the disgorgement of unspecified profits earned by the Company s Spirits and Wine business in the past and other unspecified damages and equitable relief. Other purported class actions are pending against other producers of alcoholic beverages for alleged marketing to persons under the legal drinking age. The Company denies that its Spirits and Wine business markets beverage alcohol products to persons under the legal purchase age and denies that the advertising practices of its Spirits and Wine business are illegal or in violation of industry codes concerning responsible marketing practices. It is not possible to predict the outcome of this action or give an estimate of a possible loss or range of loss, if any, that may result from this action. The Company believes, however, and counsel has advised that the Company and its Spirits and Wine business have meritorious defenses against plaintiffs claims. The Company is vigorously contesting this action and believes that ultimately it will not have a material adverse effect on the results of operations, cash flow and financial condition of the Company.

For a discussion of other pending litigation, see Note 24, Pending Litigation, to the Consolidated Financial Statements, Item 8 to this Form 10-K/A.

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

None.

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Item 4A. Executive Officers of the Company.

The name, present positions and offices with the Company, principal occupations during the past five years and age of each of the Company s present executive officers are as follows:

Name	Present positions and offices with the Company and principal occupations during the past five years	Age
Norman H. Wesley	Chairman of the Board and Chief Executive Officer since December 1999; President and Chief Operating Officer prior thereto.	55
Mark Hausberg	Senior Vice President Finance and Treasurer since January 2000; Vice President and Treasurer prior thereto.	55
Christopher J. Klein	Senior Vice President Strategy and Corporate Development since April 2003; Executive Vice President Payment Strategies and Acquisitions for Bank One Corporation from 2001 to 2003; Managing Director of Financial Services for Internet Capital Group from 2000 to 2001; Partner, McKinsey & Company, a management consulting firm, prior thereto.	41
Craig P. Omtvedt	Senior Vice President and Chief Financial Officer since January 2000; Senior Vice President and Chief Accounting Officer prior thereto.	55
Mark A. Roche	Senior Vice President, General Counsel and Secretary since January 2000; Senior Vice President and General Counsel prior thereto.	50
Nadine A. Heidrich	Vice President and Corporate Controller since September 2001; Chief Financial Officer of Specialty Elastomers Group, Inc. from 2000 to 2001; Vice President Finance for John Crane, Inc. prior thereto.	50

In the case of each of the above-listed executive officers, the occupations given were the principal occupation and employment during the periods indicated. No executive officers are related to any other executive officer. No executive officer was selected pursuant to any arrangement or understanding between the executive officer and any other person. All executive officers are elected annually by the Board of Directors.

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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

Payment date	*2004* *Per share*	2003 Per share
March	$ .30	$ .27
June	.30	.27
September	.33	.30
December	.33	.30
Total	$ 1.26	$ 1.14

Quarterly Composite Common Stock Prices

	2004		2003	
	High	*Low*	High	Low
First Quarter	$ 77.10	$ 66.10	$ 48.70	$ 40.60
Second Quarter	$ 80.50	$ 70.80	$ 54.25	$ 42.71
Third Quarter	$ 75.21	$ 68.47	$ 58.57	$ 51.41
Fourth Quarter	$ 79.15	$ 70.35	$ 71.80	$ 57.02

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 10, 2005, there were 32,280 record holders of the Company s common stock, par value $3.125 per share.

See Item 12 Security Ownership of Certain Beneficial Owners and Management Equity Compensation Plan Information for information with respect to securities authorized for issuance under the Company s equity compensation plans.

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Recent Sales of Securities; Use of Proceeds from Securities

None.

Purchases of Equity Securities by Issuer and Affiliated Purchasers

Below are the repurchases of common stock by the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) for the three months ended December 31, 2004:

Three Months Ended December 31, 2004	Total number of shares purchased[1][2]	Average price paid per share	Total number of shares purchased as part of publicly announced programs[1]	Maximum number of shares that may yet be purchased under the programs[1]
October 1-October 31	220,915	$ 71.27	219,500	6,768,400
November 1-November 30	216,318	77.91	212,300	6,556,100
December 1-December 31	411,569	76.50	409,000	6,147,100
Total	848,802	$ 75.50	840,800	

(1) 840,800 of the 848,802 shares purchased by the Company between October 1, 2004 and December 31, 2004 were acquired in open market transactions pursuant to a share repurchase program that was approved by the Company s Board of Directors on February 24, 2004 and publicly announced through the filing of a Form 8-K that same day. The share repurchase program authorizes the Company to purchase up to 5,000,000 shares from March 1, 2004 to February 28, 2005. The Board of Directors also granted authority to the Board s Executive Committee to authorize the purchase of up to an additional 5,000,000 shares (10,000,000 shares in total) on or prior to February 28, 2005 to the extent the Executive Committee determines it appropriate.

(2) 8,002 of the 848,802 shares purchased by the Company between October 1, 2004 and December 31, 2004 were purchased from employees of the Company in connection with the exercise of stock options issued under the Company s long-term incentive plans. The employees sold these shares to the Company in payment of the exercise price of the options exercised.

As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Net Cash Provided and Used by Financing Activities Common Stock Repurchase Program, on February 22, 2005, our Board of Directors approved a new share repurchase program. The program authorizes our management to purchase up to 5,000,000 shares in open market transactions or privately negotiated transactions from March 1, 2005 to February 28, 2006. The program approved on February 22, 2005 replaces the similar program described above that expired on February 28, 2005.

As with the prior program, our Board of Directors also granted authority to the Board s Executive Committee to authorize the purchase of up to an additional 5,000,000 shares on or prior to February 28, 2006 to the extent the Executive Committee determines it appropriate.

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Item 6. Selected Financial Data.

Five-year Consolidated Selected Financial Data Fortune Brands, Inc. and Subsidiaries

(In millions, except per share amounts)	*2004*[(b)(d)]	2003[(b)(d)]	Restated 2002[(b)(d)]	2001[(b)(e)]	2000[(e)]
OPERATING DATA[(a)]					
Net sales	$ 6,145.2	$ 5,112.6	$ 4,572.3	$ 4,383.3	$ 4,280.6
Gross profit	2,503.4	2,124.1	1,885.6	1,704.6	1,765.3
Depreciation and amortization	191.5	157.6	139.7	171.6	170.7
Operating income	1,024.6	868.3	765.2	621.8	670.9
Interest expense	77.3	63.9	60.4	75.3	97.1
Income taxes	261.1	275.3	186.6	114.5	185.1
Income from continuing operations	716.0	552.1	546.4	461.1	384.8
Income (loss) from discontinued operations, net of tax	67.8	27.1	15.8	(65.7)	(512.5)
Net income (loss)	783.8	579.2	562.2	395.4	(127.7)
Basic earnings per common share					
Continuing operations	$ 4.93	$ 3.78	$ 3.65	$ 3.04	$ 2.44
Net income (loss)	$ 5.40	$ 3.97	$ 3.76	$ 2.60	$ (0.80)
Diluted earnings per common share					
Continuing operations	$ 4.78	$ 3.68	$ 3.55	$ 2.97	$ 2.40
Net income (loss)	$ 5.23	$ 3.86	$ 3.65	$ 2.55	$ (0.80)
COMMON SHARE DATA[(a)(c)]					
Dividends paid	$ 182.9	$ 166.2	$ 152.7	$ 147.2	$ 146.9
Dividends paid per share	$ 1.26	$ 1.14	$ 1.02	$ 0.97	$ 0.93
Average number of basic shares outstanding	145.1	145.6	149.4	151.7	157.6
Book value per share	$ 21.53	$ 18.08	$ 14.90	$ 13.05	$ 12.60
BALANCE SHEET DATA[(a)]					
Inventories	$ 915.7	$ 800.0	$ 699.7	$ 686.2	$ 839.2
Current assets	2,641.9	2,281.6	1,903.1	1,969.6	2,264.5
Working capital	605.9	148.1	388.4	741.6	224.6
Property, plant and equipment, net	1,219.5	1,187.9	993.4	923.7	944.7
Goodwill and intangibles, net	3,237.2	3,212.1	2,204.4	1,660.6	1,789.6
Total assets	7,883.6	7,444.9	5,822.2	5,270.5	5,764.1
Short-term debt	670.2	728.1	290.6	35.3	802.9
Long-term debt	1,239.5	1,242.6	841.7	949.3	1,149.3
Minority interest in consolidated subsidiaries	358.0	356.5	387.0	387.9	14.4
Stockholders equity	3,130.7	2,640.6	2,234.3	1,987.2	1,994.6
Capital expenditures	214.2	177.6	172.3	187.6	196.8

(a) See Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations to this Form 10-K/A.

(b) See Note 5, Acquisitions, Disposals and Joint Ventures, to the Consolidated Financial Statements, in Item 8 to this Form 10-K/A, regarding adjustments relating to the disposal of businesses.

(c) On December 31, 2004, there were 32,650 common stockholders of record, not necessarily reflecting beneficial ownership.

(d) See Note 2, Restatement to the Consolidated Financial Statements, in Item 8 to this Form 10-K/A, regarding restatement of deferred taxes and stockholders equity.

(e) 2000 and 2001 financial statement information has been restated to record deferred taxes for intangible assets. In addition, 2000 and 2001 Operating Data was restated to record the tax benefit of intangible asset write-offs and intangible asset amortization. As a result of the restatement, fiscal 2001 income from continuing operations increased $7.6 million, income from discontinued operations increased $18.2 million, net income increased $25.8 million, diluted earnings increased $0.24 per share, deferred tax liabilities increased by $115.5 million and retained earnings decreased by $115.5 million. Fiscal 2000 income from continuing operations increased $6.1 million, income from discontinued operations increased $3.9 million, net income increased $10.0 million, diluted earnings increased $0.08 per share, deferred tax liabilities increased by $141.3 million and retained earnings decreased by $141.3 million.

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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)	*2004*	% Change vs. Prior Year	2003	% Change vs. Prior Year	2002
Home and Hardware	$ 3,763.7	29.8%	$ 2,899.9	14.5%	$ 2,532.2
Spirits and Wine	1,169.3	7.2	1,091.0	5.7	1,032.5
Golf	1,212.2	8.1	1,121.7	11.3	1,007.6
NET SALES	$ 6,145.2	20.2%	$ 5,112.6	11.8%	$ 4,572.3

	Net Income				
	Year Ended December 31,				
(In millions)	*2004*	% Change vs. Prior Year	2003	% Change vs. Prior Year	Restated 2002
OPERATING INCOME:					
Home and Hardware	$ 598.5	24.4%	$ 481.3	20.8%	$ 398.5
Spirits and Wine	333.7	10.2	302.8	9.6	276.3
Golf	153.8	10.6	139.1	7.2	129.8
Less: Corporate expenses	61.4	11.8	54.9	39.3	39.4
OPERATING INCOME	$ 1,024.6	18.0%	$ 868.3	13.5%	$ 765.2
LESS:					
Interest expense	77.3	21.0	63.9	5.8	60.4
Other income, net	(47.0)	(23.0)	(38.2)	13.4	(44.1)
Income taxes	261.1	(5.2)	275.3	47.5	186.6
Minority interests	17.2	13.2	15.2	(4.4)	15.9
INCOME FROM CONTINUING OPERATIONS	$ 716.0	29.7%	$ 552.1	1.0%	$ 546.4
INCOME FROM DISCONTINUED OPERATIONS	67.8	150.2	27.1	71.5	15.8
NET INCOME	$ 783.8	35.3%	$ 579.2	3.0%	$ 562.2

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Consolidated

Summary

Fortune Brands, Inc. is a holding company with subsidiaries that make and sell leading consumer branded products in the following industries: home and hardware and spirits and wine and golf products. We enhance shareholder value by building our leading consumer brands to drive sales, earn profits and generate cash. We do this by developing innovative new products and effective marketing campaigns, and expanding customer relationships. We also seek to increase profits by improving operations, increasing productivity and enhancing cost structures. While our first priority is internal growth, we also strive to achieve growth and high returns through acquisitions, dispositions and joint ventures. Finally, we enhance shareholder value through other initiatives such as using our financial resources to repurchase shares and pay attractive dividends.

2004 was an excellent year of broad-based success for Fortune Brands. Net income and diluted earnings per share both increased 35% in 2004 to $783.8 million and $5.23, respectively. Income from continuing operations and diluted earnings per share from continuing operations (excluding discontinued operations) both increased 30% in 2004 to $716.0 million and $4.78, respectively. The increase in profits was due primarily to the benefit of strong operating performance, as well as tax-related benefits, favorable foreign exchange rates and the impact of acquisitions. Net sales from continuing operations increased 20% to $6.1 billion, as a result of strong underlying growth, the benefit of acquisitions, favorable foreign exchange and price increases implemented to help offset commodity cost increases.

As indicated below, each of our business segments achieved excellent performance in 2004:

Our Home and Hardware business achieved strong double-digit growth in both operating income (24%) and sales (30%), resulting from successful line extensions and new product introductions, expanded customer relationships in cabinets and doors, the full-year consolidation and growth of Therma-Tru, as well as productivity improvements. Acquisitions contributed approximately half of the increase in sales.

Our Spirits and Wine business achieved 10% growth in operating income and 7% growth in sales due to strong worldwide volume growth for the Jim Beam bourbon brand, higher pricing and favorable foreign exchange.

On the strength of successful new products, our Golf brands achieved an 11% increase in operating income on 8% growth in sales.

In 2005, the Company is well positioned for another year of strong performance. We believe the Company will benefit from the following trends in our businesses:

Aging population trends in the U.S. that favorably impact conditions in the home improvement, golf and spirits & wine industries;

Additional favorable long-term demographics of the home improvement and housing industries, particularly in the kitchen and bath segment, including rising household formations and increasing household wealth;

record existing home sales in 2004 and the effect of replace/remodel projects that often trail existing home sales by up to 12 to 18 months;

expanded customer relationships, particularly in Home and Hardware;

continued growth of key spirits and wine markets, especially the premium and super-premium segments, and our investments behind our brands in these segments; and

continuous innovation and international growth opportunities in our golf business.

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The Company has also identified the following risks and challenges that may impact our businesses:

- continued consolidation of the Company s trade customers, particularly in the Home & Hardware business;
- potential impact of changes in interest rates on the housing market;
- possible continuing increases in commodity costs, particularly steel, particleboard and fuel-related costs; and
- impact of external conditions (economic conditions, weather, destination travel and corporate spending) on overall golf ball demand.

Results of Operations

2004 Compared to 2003

Fortune Brands achieved strong results, as net sales from continuing operations increased 20%. Income from continuing operation increased 30% and net income grew 35%. Net sales grew as a result of:

- strong growth for our consumer brands driven by share gains in key markets resulting from successful new products and expanded customer relationships,
- the benefit of acquisitions,
- solid market growth in Home & Hardware and Spirits & Wine markets, and
- favorable foreign exchange.

Net income increased on:

- strong operating performance,
- the benefit of acquisitions,
- favorable foreign exchange, and

higher tax-related benefits, partly offset by increased commodity costs.

Our operating units will face challenges and opportunities unique to each of their industries, as discussed in this report.

Net Sales

Net sales from continuing operations increased $1,032.6 million, or 20%, to $6.1 billion. Sales benefited from:

- newly introduced products and line extensions in the Home & Hardware and Golf businesses ($494 million in total), partly offset by lower sales of certain products being discontinued in the Golf and the Home & Hardware businesses,
- the net impact ($388 million) of acquisitions (primarily Therma-Tru) and dispositions,
- expanded customer relationships driving increased volume, primarily in the cabinet and entry door businesses, and
- favorable foreign exchange ($81 million).

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Cost of products sold

Cost of products sold increased $655.6 million, or 24%, on higher net sales and increased costs for major commodities (approximately $65 million), particularly steel and particleboard, primarily in our Home & Hardware business.

Excise taxes on spirits and wine

U.S. excise taxes on spirits and wine decreased as a percentage of sales due to greater international sales, as well as a favorable mix shift from mid-tier brands to premium and super-premium spirits and wines. In the U.S., excise taxes are levied based on the proof content of spirits and wine products. Consistent with industry practice, U.S. excise taxes collected from customers are reflected in sales and the corresponding payments to the government in cost of products sold.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses increased $197.2 million, or 16%, as a result of higher sales and acquisitions, as well as increased advertising and marketing expenditures.

Amortization of intangibles

Amortization of intangibles increased $18.2 million, or 106%, primarily due to amortization of identifiable intangibles associated with the acquisition of Therma-Tru.

Restructuring charges

In 2004, we recorded pre-tax restructuring charges of $9.8 million, compared to $2.2 million in 2003. Charges in 2004 principally related to the consolidation of manufacturing facilities, primarily in the Home & Hardware business.

Other income, net

Other income, net, increased $8.8 million to $47.0 million, primarily due to a $12.0 million gain recorded in 2004 as the result of insurance proceeds related to a Kentucky bourbon warehouse fire in 2003, partly offset by the lower tax-related interest income. The components of other income, net for the years ended December 31, 2004 and 2003 are as follows:

(In millions)	***2004***	**2003**
Amortization of deferred income	$ 27.0	$ 27.0
Insurance proceeds from a Kentucky bourbon warehouse fire	12.0	
Interest income on tax receivable	3.2	10.7
Other miscellaneous items	4.8	0.5
Total	$ 47.0	$ 38.2

Income taxes

Income taxes decreased $14.2 million, or 5%, on higher net income as we recorded higher tax-related benefits in 2004 ($105.6 million) compared with 2003 ($35.0 million). The reported effective income tax rates for the twelve months ended December 31, 2004 and 2003 were 26.3% and 32.7%, respectively. The items set forth below impacted the effective income tax rate.

During the third quarter of 2004, the Internal Revenue Service concluded its field examination phase of the routine review of our 1997-2001 tax returns. As a result of the audit, we recorded a net tax reserve reversal of $45.5 million in continuing operations. This net reversal accounts for the release of reserves for items resolved more favorably than anticipated, partly offset by the disallowance of a deduction for which no reserve had been established.

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In the fourth quarter of 2004, the Congressional Joint Committee on Taxation completed its review of the results of the routine IRS examination of our 1997-2001 tax returns. In continuing operations, we recorded a total tax benefit of $51.5 million, or $0.35 per diluted share, reflecting the completion of the Joint Committee review. This resulted in a reversal of tax reserves of $39.5 million and a net tax adjustment of $12.0 million. As a result of the conclusion of the IRS examination of our 1997-2001 tax years, we expect to receive a tax refund of approximately $59 million in the first half of 2005. During the fourth quarter of 2004, we also recorded a one-time non-operating adjustment for interest income on taxes receivable related to these tax-related benefits of $2.1 million (after tax), or $0.01 per diluted share, which was recorded in other income.

In the fourth quarter of 2004, we recorded a tax benefit of $4.6 million, or $0.03 per diluted share, associated with foreign earnings repatriation under provisions of the American Jobs Creation Act of 2004.

In 2003, the audit of our 1993-1996 tax returns resulted in a reduction in tax expense of $35 million, or $0.23 per diluted share. As a result, we also recorded a one-time non-operating adjustment of $6.9 million in interest income (after tax), which was recorded in other income.

Net income

Net income increased $204.6 million, or 35%, to $783.8 million due primarily to strong broad-based operating performance, higher tax-related benefits ($107.7 million in 2004 compared to $41.9 million in 2003), the benefit of favorable foreign exchange ($18 million) and the impact of acquisitions. Income from continuing operations increased $163.9 million, or 30%, to $716.0 million due primarily to strong broad-based operating performance, higher tax-related benefits ($107.7 million in 2004 compared to $41.9 million in 2003), the benefit of favorable foreign exchange ($13 million) and the impact of acquisitions. Income from discontinued operations, net of tax, increased $40.8 million, or 150%, primarily on the benefit of the business ongoing reposition program, including successful supply chain realignment and cost reduction initiatives, favorable foreign exchange and higher sales volume.

Diluted earnings per share were $5.23 in 2004, up 35% from 2003. Diluted earnings per share from continuing operations were $4.78 in 2004, up 30% from 2003. Diluted earnings per share from discontinued operations were $0.45 in 2004, up 150% from 2003.

Pension Plans

On a periodic basis, we evaluate the assumptions used in determining our pension liabilities and assets as well as pension expense based on historical returns on plan assets and current economic conditions at the time the assumptions are set.

Our December 2003 review of the economic assumptions underlying our pension expense and year-end disclosure led to a reduction in our weighted-average discount rate from 6.6% to 6.1%. The weighted-average expected rate of return remained unchanged at 8.3%. The 2003 revisions led to an increase of approximately $5 million in pension expense to $37.4 million in 2004.

Our December 2004 review of the economic assumptions led to a reduction in our weighted-average discount rate from 6.1% to 5.9%. The weighted-average expected rate of return remained unchanged at 8.3%. Management believes that these assumptions are appropriate. The 2004 revisions will result in an increase to pension expense of approximately $4 million in 2005.

Total pension plan cash contributions were $100.7 million and $123.5 million, respectively in 2004 and 2003. The Company maintains pension plans at each of its operations. The pension plans in aggregate are funded in excess of the accumulated benefit obligation. In 2005 we expect to make cash contributions of approximately $40 to $70 million to fund existing pension liabilities for our defined-benefit plans. We believe that our internally generated funds will be adequate to make these pension plan cash contributions.

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International Performance

We derived approximately 23% of our 2004 and 2003 operating income from international markets, principally Australia, Canada and the United Kingdom. The decrease in the portion of operating income attributable to international markets resulted primarily from incremental sales from acquisitions, which were mainly in the U.S. Fluctuations in the exchange rates of foreign currencies may affect results in future periods. Fluctuations in average foreign exchange rates increased 2004 operating income by approximately 2%. We cannot accurately predict fluctuations in foreign exchange rates. A 10% change in average exchange rates for the foreign currencies from 2004 average rates would have resulted in a change in operating income of approximately $18 million, or about 2%.

2003 Compared to 2002

Net sales

Net sales increased $540.3 million, or 12%, to $5.1 billion. Sales benefited principally from increased volume associated with line extensions and the introduction of new products in our Golf and Home & Hardware businesses ($241 million in aggregate), acquisitions ($220 million) including Omega in 2002 and favorable foreign exchange ($81 million). These benefits were partly offset by lower volumes in some existing product lines in the Office business, as well as the divestiture of the non-strategic plumbing parts business of Home and Hardware in November 2002 ($53 million).

Cost of products sold

Cost of products sold increased $310.9 million, or 13%, primarily on higher sales.

Excise taxes on spirits and wine

U.S. excise taxes on spirits and wine decreased $9.1 million, or 3%, due to lower volume for some non-premium products in the U.S.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses increased $141.7 million, or 13%, on increased support for cabinet growth, golf marketing costs and commissions on higher sales.

Amortization of intangibles

Amortization of intangibles increased $3.1 million, or 22%, due to the full year amortization of finite-lived intangibles for the 2002 Omega acquisition.

Restructuring charges

In 2003, we recorded pre-tax restructuring charges of $2.2 million. These charges principally related to disposal of assets associated with consolidation of ball plant facilities in the Golf business.

Other income, net

Other income, net, decreased $5.9 million to $38.2 million. The components of other income, net for the years ended December 31, 2003 and 2002 are as follows:

(In millions)	***2003***	**2002**
Amortization of deferred income	$ 27.0	$ 27.0
Interest income on tax receivable	10.7	14.9
Other miscellaneous items	0.5	2.2
Total	$ 38.2	$ 44.1

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Income taxes

Income taxes increased $88.7 million, or 48%, as we recorded a lower tax-related benefit in 2003 compared with 2002. The reported effective income tax rates for the twelve months ended December 31, 2003 and 2002 were 32.7% and 24.9%, respectively. The effective income tax rate was affected by the following items. During 2003, the audit of our 1993-1996 tax returns resulted in a reduction in tax expense of $35 million. During 2002, we recorded a $61.7 million tax benefit, which resulted from new IRS regulations that reinterpreted the capital loss disallowance rules. The new regulations enabled us to utilize a previously disallowed capital tax loss to offset capital gains taxed in 1996 and 1997.

Net income

Net income increased $17.0 million, or 3%, to $579.2 million due primarily to strong broad-based operating performance, the benefit of favorable foreign exchange ($23 million), lower restructuring charges ($6 million) and the impact of acquisitions ($15 million), in part offset by a lower tax-related benefit than 2002 ($35.0 million in 2003 compared to $61.7 million in 2002). Income from continuing operations increased $5.7 million, or 1% to $552.1 million on strong broad-based performance, the benefit of favorable foreign exchange ($17 million), lower restructuring charges ($6 million) and the impact of acquisition ($15 million), in part offset by a lower tax-related benefit than 2002 ($35.0 million in 2003 compared to $61.7 million in 2002). Income from discontinued operations, net of tax, increased $11.3 million to $27.1 million benefiting from the business ongoing repositioning program, including successful cost reductions and favorable foreign exchange, partly offset by the benefit of last year s reversal of tax reserves.

Diluted earnings per share were $3.86 in 2003, up 6% from 2002. Earnings per share benefited from higher net income and our share repurchase program. Diluted earnings per share from continuing operations were $3.68, up 4% from 2002. Diluted earnings per share from discontinued operations were $0.18, up 80% from 2002.

Pending Litigation

See Note 24 to the Consolidated Financial Statements, Item 8 of this 10-K/A.

Environmental Matters

Along with other responsible parties, our subsidiaries face claims relating to the protection of the environment. As of February 10, 2005, various of our subsidiaries had been designated as potentially responsible parties under Superfund or similar state laws in 60 instances. We have reached settlements in 40 of these instances. 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, 2004 and 2003, we have accrued $46.2 million and $48.5 million, respectively, to cover these matters.

Related Party Transactions

Future Brands, LLC

In 2001, the Spirits and Wine business completed transactions with V&S Vin & Sprit AB (V&S) creating the Future Brands joint venture, which distributes both companies spirits brands in the United States and provides related selling and invoicing services. Future Brands receives a commission from the partners for services provided. JBBCo. records revenue at the time of shipment to Future Brands customers. As part of forming this joint venture, JBBCo. has, in the event of default of Future Brands, a continuing obligation to satisfy any financial obligations of Future Brands that may arise in the event that Future Brands fails to fulfill its operating obligations and which results in a claim. These financial obligations include, but are not limited to, making payments to suppliers, employees and other parties with which Future Brands has contracts. At December 31, 2004 and 2003, JBBCo. did not have any outstanding obligations as a result of this arrangement.

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JBBCo. s balances related to Future Brands included the following:

(In millions)	*2004*	2003
Accounts receivable (invoicing by Future Brands on behalf of JBBCo.)	$ 73.2	$ 73.5
Investment	9.3	8.2
Accounts payable (commissions)	17.2	14.4
Accrued liabilities	7.2	24.7

Maxxium Worldwide B.V.

In 1999, the Spirits and Wine business formed an international sales and distribution joint venture named Maxxium Worldwide B.V. (Maxxium) to distribute and sell spirits and wine in key markets outside the United States. The joint venture partners include Remy-Cointreau, Highland Distillers and V&S. JBBCo. records sales at the time spirits are sold to third parties rather than at the time of shipment to Maxxium. As a result of forming this joint venture, the Company has guaranteed certain credit facilities and bank loans entered into by Maxxium up to an amount totaling $85 million, of which $76 million was outstanding as of December 31, 2004. At December 31, 2003, the guarantees totaled $79 million, of which $69 million was outstanding. JBBW has executed a Shareholder Loan Facility (Loan Facility) with Maxxium. There were no amounts outstanding under the Loan Facility as of either December 31, 2004 or December 31, 2003. The Loan Facility expires June 30, 2006.

JBBCo. s balances related to Maxxium included the following:

(In millions)	*2004*	2003
Accounts receivable	$ 60.1	$ 39.4
Investment	64.6	64.9
Accounts payable (expense reimbursement)	13.7	16.0

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which was effective for newly created variable interest entities as of January 31, 2003 and was effective for existing variable interest entities as of October 1, 2003. The objective of FIN 46 is to improve financial reporting by companies having transactions involving variable interest entities. In December 2003, the FASB issued a revision to FIN 46 (FIN46R). FIN 46 and FIN 46R did not have a material impact on our results or financial position.

In May 2004, the FASB issued FASB Staff Position No. 106-2 (FSP 106-2), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Prescription Act). FSP 106-2 provides guidance on the accounting for, and disclosure of, the effects of the Medicare Prescription Act enacted in December 2003. The Medicare Prescription Act will provide a prescription drug benefit under Medicare Part D, as well as provide a federal subsidy to employers that provide a program for prescription drug benefits that is at least actuarially equivalent to Medicare Part D.

We adopted FSP 106-2 prospectively in the third quarter of 2004. Several of our postretirement plans qualify for the federal subsidy; however, the adoption of FSP 106-2 did not have a material impact on our results of operations. The subsidy, which will result in lower future expense, reduced our accumulated postretirement benefit obligation by $10.9 million, or 6%.

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In December 2004, the FASB issued FASB Staff Position No. 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). The Act provides for a special one-time dividends received deduction on the repatriation of foreign earnings. As a result of FSP 109-2, we recorded an income tax benefit of $3.4 million in 2004. See Note 14, Income Taxes, to the Consolidated Financial Statements.

In December 2004, the FASB issued Financial Accounting Standards No. 123 (revised 2004) (FAS 123R), Share-Based Payment. FAS 123R replaces FAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FAS 123R requires compensation expense, measured as the fair value at the grant date, related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. We intend to adopt FAS 123R using the modified prospective transition method as defined in FAS 123R. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption of FAS 123R, of previously issued and outstanding awards over the remaining vesting period of such awards. FAS 123R is effective for our third quarter 2005. We are evaluating the impact of FAS 123R on our results of operations and financial position.

Critical Accounting Policies and Estimates

Our accounting policies are described in Note 1 of Notes to Consolidated Financial Statements. The Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles. 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, which are based on historical experience.

Allowances for Doubtful Accounts

Trade receivables are recorded at the stated amount, less allowances for discounts, doubtful accounts and returns. Trade receivables do not include interest. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations, usually due to customers potential insolvency or 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 $44.5 million and $44.2 million as of December 31, 2004 and December 31, 2003, respectively.

Inventories

Inventories are priced at the lower of cost (principally first-in, first-out and average, with minor amounts at last-in, first-out) or market. In accordance with generally recognized trade practice, bulk whiskey 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 reserves are recorded for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory turns and specific identification of items, such as product discontinuance or engineering/material changes.

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Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided, principally on a straight-line basis, over the estimated useful lives of the assets. Gains or losses resulting from dispositions are included in income. Betterments and renewals, which improve and extend the life of an asset, are capitalized; maintenance and repair costs are expensed. Estimated useful lives of the related assets are as follows:

Buildings and leasehold improvements	15 to 40 years
Machinery and equipment	3 to 10 years

Long-lived Assets

In accordance with Statement of Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long-lived Assets, a long-lived asset (including amortizable identifiable intangibles) 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 at the time of future cash flow derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated using a quoted market price, or if unavailable, using discounted expected future cash flows. The discount rate applied to these cash flows is based on our weighted-average cost of capital, which represents the blended after-tax costs of debt and equity.

Goodwill and Indefinite-lived Intangibles

In accordance with Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets, goodwill is tested for impairment on an annual basis and under certain circumstances, 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 discounted cash flows of the businesses to which the goodwill relates. We use a rate corresponding to our cost of capital, risk adjusted where appropriate, in determining discounted cash flows. Estimated cash flows are then determined by disaggregating our business segments to a reporting level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying value of the net assets (tangible and identifiable intangibles) and related goodwill, we perform an impairment test to measure and recognize the amount of the impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit s goodwill over the implied fair value of that goodwill. In determining the estimated future cash flows, we consider current and projected future levels of income as well as business trends, prospects and market and economic conditions.

FAS 142 requires that purchased intangible assets other than goodwill to be amortized over their useful lives unless these 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.

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We review indefinite-lived intangibles for impairment annually, and whenever market or business events indicate there may be a potential impact on that intangible. We consider the implications of both external (e.g., market growth, pricing, competition, technology) and internal factors (e.g., product costs, margins, support expenses, capital investment) and their potential impact on cash flows for each business in both the near and long term, as well as their impact on any identifiable intangible asset associated with the business in developing and executing our short-term and long-term plans. Based on recent business results, consideration of significant external and internal factors, and the resulting business projections, indefinite-lived intangible assets associated with that segment are reviewed to determine whether they are likely to remain indefinite-lived, or whether a finite life is more appropriate. In addition, based on events in the period and future expectations, management considers whether the potential for impairment exists as required by FAS 142.

Our predominant method of approximating fair value in determining whether an impairment exists is to use cash flow projections. We measure impairment based on discounted expected future cash flows attributable to the tradename compared to the carrying value of that tradename. When separate cash flow information is not available, we use the relief-from-royalty approach. Fair value is represented by the present value of hypothetical royalty income over the remaining useful life. Where information is not available to determine an appropriate royalty rate, we utilize a profit split methodology, which is a customary valuation practice, to establish a reasonable royalty rate. Profit split analyses allocate economic income (EBITDA less returns on working capital and fixed assets employed) between a tradename and residual assets of the economic unit to determine of the expected profit margin associated with commercialization of the tradename. Additionally, independent valuation experts are used for periodic review and testing of management s assumptions relative to all significant trade valuations and lives, and for independent research on market and competitive dynamics.

In conjunction with our ongoing review of the carrying value of our identifiable intangibles, in the year ended December 31, 2004, there were no write-downs of intangible assets. In the year ended December 31, 2003, we recorded a non-cash write-down of identifiable intangibles of $12.0 million, $8.0 million after tax ($0.05 basic and diluted per share) in discontinued operations to recognize the diminished values of certain trade names in conjunction with our repositioning plans for the Office business.

Warranty Reserves

We offer our customers various warranty terms based upon the type of product that is sold. We determine warranty expense in accordance with the policy established at each operating company. The main consideration is historic claim experience, which is company-specific based upon the nature of the product category. We generally record warranty expense in cost of products sold at the time of sale. Refer to Note 17 to the Consolidated Financial Statements.

Warranty expense for the years ended December 31, 2004, 2003 and 2002 were $33.9 million, $28.7 million and $23.4 million, respectively.

Employee Benefit Plans

We provide a range of benefits to our employees and retired employees, including pensions, postretirement, post-employment and health care benefits. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, 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 rates and trends when it is deemed appropriate to do so. As required by United States generally accepted accounting principles, the effect of our modifications are generally recorded and amortized over future periods. We believe that the assumptions utilized in recording our obligations under the Company s plans are reasonable based on our experience and advice from our independent actuaries.

Pension expenses were $37.4 million, $28.1 million and $21.7 million, respectively, in the years ended December 31, 2004, 2003 and 2002. Postretirement expenses were $14.1 million, $11.5 million and $10.1 million, respectively, for the years ended December 31, 2004, 2003 and 2002. In 2005, we expect pension expense of approximately $41 million and postretirement benefit expense of approximately $15 million. A 25 basis point change (0.25%) in our discount rate assumption would lead to an increase or decrease in our pension expense and postretirement benefit expense of approximately $5 million and $0.5 million, respectively, for 2005. A 25 basis point change in the long-term rate of return used in accounting for the Company s pension plans would have a $2.6 million impact on pension expense.

Income Taxes

In accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, 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.

We do not provide for deferred taxes on undistributed earnings of foreign subsidiaries that we expect to permanently reinvest. The undistributed earnings of foreign subsidiaries were, in aggregate, $397.6 million at December 31, 2004, including $208.0 million related to discontinued operations.

Revenue Recognition

In accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, we recognize revenue as products are shipped to customers, net of applicable provisions for discounts, returns and allowances. Criteria for recognition of revenue are when title and risk of loss have passed to the customer, persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. We also provide for our estimate of potential bad debt at the time of revenue recognition.

Amounts billed for shipping and handling are classified in net sales in the consolidated income statement. Costs incurred for shipping and handling are classified in advertising, selling, general and administrative expenses. Shipping and handling costs included in advertising, selling, general and administrative expenses were $185.3 million, $150.8 million and $142.6 million for 2004, 2003 and 2002, respectively.

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 products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are accounted for as reductions to gross sales. These costs are recorded at the time of sale based on management s best estimates. Estimates are based on historical and projected experience for each type of program or customer. 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).

Stock-based Compensation

We apply Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock options. Accordingly, no compensation expense has been recognized for the stock option plans. Statement of Financial Accounting Standards No. 148 (FAS 148), Accounting for Stock-Based Compensation Transition and Disclosure, requires disclosure of pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized. For the required disclosure, FAS 148 allows the use of a fair-value method to measure compensation expense. Accordingly, we have adopted the use of the Black-Scholes option-pricing model to determine our compensation expense for disclosure purposes. The model requires the use of the following assumptions: an expected dividend yield; expected volatility; risk-free interest rate; and expected term. The weighted-average fair value of options granted during the years ended December 31, 2004, 2003 and 2002 were $16.47, $13.40 and $11.63, respectively, per option. Based upon the range provided for the assumptions utilized, any alternative fair-values per option would not have materially differed from the fair values listed above. For example, a change in the expected term from 4.5 to 5 years, would have had a $0.78, or 5%, impact on the weighted-average fair value of options granted during the year ended December 31, 2004. Had FAS 148 been applied, the pro forma diluted EPS impact would have been a decrease of $0.17, $0.12 and $0.10 per share, respectively, for 2004, 2003 and 2002.

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Derivative Financial Instruments

In accordance with Statement of Financial Accounting Standards No. 133 (FAS 133), Accounting for Derivative Instruments and Hedging Activities and its related amendment Statement of Financial Accounting Standards No. 138 (FAS 138), Accounting for Certain Derivative Instruments and Certain Hedging Activities, 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 income statement 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, 2004, deferred losses of less than $0.1 million were reclassified to cost of sales. During the year ended December 31, 2003, $3.3 million in deferred losses were reclassified to cost of sales. We estimate that $9.6 million of derivative loss included in OCI as of December 31, 2004 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. We continually monitor our foreign currency exposures in order to maximize the overall effectiveness of our foreign currency hedge positions. Principal currencies hedged include the Canadian dollar, Euro, Australian dollar and Pound sterling.

Interest Rate Risk

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 amounts. We record the payments or receipts on the agreements as adjustments to interest expense. At December 31, 2004 and 2003, we had outstanding interest rate swap agreements with an aggregate notional principal amount of $200 million. The swap agreements are based on our outstanding 2.875% notes due in 2006 which allow the swap agreements to be classified as a fair value hedge in accordance with FAS 133. The agreements effectively convert the interest paid on $200 million of underlying debt securities from a fixed rate to a floating rate based on a LIBOR reference rate.

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.

Results of Operations by Segment

Home and Hardware

2004 Compared to 2003

Net sales increased $863.8 million, or 30%. The increase was attributable to the impact of acquisitions (Therma-Tru, Capital Cabinets, American Lock, Dudley and Sentinel, in aggregate $382 million excluding internal growth), line extensions and new products ($317 million), expanded customer relationships (particularly in cabinets and entry doors), a robust housing market, and price increases on select products, as well as favorable foreign exchange ($24 million).

Operating income increased $117.2 million, or 24%, on the benefit of acquisitions, higher sales and productivity improvements, partially offset by higher commodity costs, particularly steel and particleboard, and restructuring and restructuring-related charges this year.

In June 2004, Therma-Tru acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems, and Master Lock acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. The aggregate purchase price of these two acquisitions was $30.9 million.

In November 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc., the leading manufacturer of residential entry door systems in the United States. The acquisition price was $924.0 million.

In June 2003, MasterBrand Cabinets acquired Capital Cabinet Corporation, a U.S.-based manufacturer of kitchen and bath cabinets. In April 2003, Master Lock acquired American Lock Company, the largest U.S.-based manufacturer of solid body commercial padlocks.

In October 2003, Waterloo Industries announced plans to consolidate manufacturing from four facilities into three. Related to that action, in 2004 Waterloo recorded restructuring and restructuring-related charges to complete the program.

We expect that the Home and Hardware business will continue to benefit from expanding customer relationships as well as strong long-term demographic trends supporting the home repair and remodeling and new home construction markets, particularly for kitchen and bath products and residential door systems. These trends include factors such as growth in the number of U.S. households, increases in household wealth and the aging of the housing stock.

Our Home and Hardware business may be impacted by U.S. economic conditions, including mortgage interest rates, and their potential impact on the U.S. housing and remodeling markets. The business may also be affected by additional increases in the costs of certain commodities including higher fuel-related costs, although these higher costs have been, and we believe will continue to be, largely offset by select price increases. In addition, the Home and Hardware business continues to face pricing pressure associated with consolidation of the industry customer base. This consolidation may also present opportunities for the most efficient suppliers.

2003 Compared to 2002

Net sales increased $367.7 million, or 15%. The increase was attributable to strong underlying operating performance, the full-year consolidation of Omega, acquired in 2002, and the acquisitions of Therma-Tru, American Lock and Capital Cabinet ($163 million from acquisitions in aggregate), successful line extensions and new product introductions ($157 million), principally in cabinets and faucets, as well as expanded customer relationships. The sales growth was tempered by the absence of the divested plumbing parts business ($53 million) and soft retail volume in our tool storage business.

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Operating income increased $82.8 million, or 21%, on higher sales, productivity improvements, and the absence of the low-return plumbing product lines sold in 2002 ($4 million), partially offset by higher operating expenses, including increased commissions on higher sales, additional support for cabinet business growth and increased amortization of in-store cabinet displays.

Spirits and Wine

2004 Compared to 2003

Net sales increased $78.3 million, or 7%, principally on favorable foreign exchange ($27 million), strong worldwide growth in Jim Beam bourbon, higher pricing for Jim Beam bourbon and mid-tier brands in the U.S. and the acquisition of Wild Horse Winery.

Operating income increased $30.9 million, or 10%, on the higher sales and favorable foreign exchange, partly offset by increased investment in key brand-building initiatives.

We expect that our Spirits and Wine business will benefit from growth in the premium and super-premium spirits markets on which it focuses product development and marketing activities. Factors in the spirits and wine industry that could adversely affect results include possible further consolidation of suppliers, distributors and retailers, possible excise tax increases, increased regulation, class actions and/or other litigation, and price competition.

2003 Compared to 2002

Net sales increased $58.5 million, or 6%, on the benefit of foreign exchange ($35 million), growth in underlying sales ($17 million), primarily Jim Beam ready-to-drink products in Australia, higher sales of DeKuyper cordials and super-premium spirits in the U.S., and higher pricing for Jim Beam bourbon. These benefits were partly offset by decreased volumes for some non-premium products in the U.S.

Operating income increased $26.5 million, or 10%, benefiting from favorable foreign exchange and higher revenues, partly offset by increased selling and marketing administration costs ($12 million).

Golf

2004 Compared to 2003

Net sales increased $90.5 million, or 8%. The increase was attributable to continued volume growth across categories (golf clubs, golf balls, golf footwear, gloves and accessories - $66 million) driven by the introduction of successful new golf products and line extensions, as well as favorable foreign exchange ($31 million).

Operating income increased $14.7 million, or 11%, on higher sales, favorable foreign exchange and increased sales of higher margin Titleist golf balls.

In April 2003, our Golf business announced plans to consolidate three golf ball manufacturing facilities into its two newest production facilities. This consolidation has created manufacturing efficiencies while preserving capacity to meet expected demand. Related to this consolidation, in 2004 we recorded $6.2 million in pre-tax restructuring and restructuring-related charges to complete this program.

The U.S. golf industry is highly competitive. The underlying market is impacted by various factors that affect rounds of play, including economic conditions, weather conditions, destination travel and corporate spending. Despite favorable demographics of an aging population (rounds of play increase with age), rounds of play in the U.S. have decreased over the past four years and were essentially flat in 2004. Our golf business has outperformed the market. While competitors with high inventories in the marketplace, especially for clubs, resorted to significant price discounting, retail inventories of our golf products were not excessive and we maintained relatively strong pricing on current products. The future success of our Golf business will depend upon continued innovation and marketing across product categories.

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2003 Compared to 2002

Net sales increased $114.1 million, or 11%. The increase was led by significant share gains across all product categories benefiting from line extensions and the introduction of successful new golf club and golf ball products ($78 million), as well as favorable foreign exchange ($30 million) and favorable product mix. Our golf business achieved sales growth and share gains despite a 3% reduction in rounds of play in the U.S.

Operating income increased $9.3 million, or 7%, benefiting from higher sales and favorable foreign exchange. The increase was partially offset by higher marketing costs, as well as restructuring-related charges ($6 million).

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Fortune Brands, Inc. and Subsidiaries

Quarterly Financial Data

Unaudited

(In millions, except per share amounts)

2004	**1st**	**2nd**	**3rd**	**4th**
Net sales	$ 1,436.9	$ 1,620.7	$ 1,508.3	$ 1,579.3
Gross profit	588.8	678.1	620.2	626.6
Operating income	215.6	296.1	249.3	263.6
Income from continuing operations	131.0	174.0	188.8	222.2
Income from discontinued operations	8.7	(6.2)	38.0	27.3
Net income	139.7	167.8	226.8	249.5
Earnings per common share				
Basic				
Income from continuing operations	$ 0.89	$ 1.19	$ 1.31	$ 1.54
Net income	$ 0.95	$ 1.15	$ 1.57	$ 1.73
Diluted				
Income from continuing operations	$ 0.87	$ 1.15	$ 1.27	$ 1.49
Net income	$ 0.92	$ 1.11	$ 1.52	$ 1.68

2003	**1st**	**2nd**	**3rd**	**4th**
Net sales	$ 1,142.2	$ 1,329.4	$ 1,297.1	$ 1,343.9
Gross profit	463.5	692.8	541.9	553.4
Operating income	166.0	244.9	223.3	234.1
Income from continuing operations	95.0	179.3	139.3	138.5
Income from discontinued operations	4.5	(2.6)	6.8	18.4
Net income	99.5	176.7	146.1	156.9
Earnings per common share				
Basic				
Income from continuing operations	$ 0.65	$ 1.24	$ 0.96	$ 0.94
Net income	$ 0.68	$ 1.22	1.01	$ 1.07
Diluted				
Income from continuing operations	$ 0.63	$ 1.20	$ 0.93	$ 0.92
Net income	$ 0.66	$ 1.18	$ 0.98	$ 1.04

Financial C ondition

NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash generation continued to be strong in 2004. Net cash provided by operating activities in 2004 was $791.9 million compared with $790.7 million in 2003. The principal items impacting the change were higher net income in 2004, improved working capital efficiency and receipt of insurance proceeds from the Jim Beam warehouse fire last year, offset by higher working capital to support sales growth (accounts receivable and inventory), as well as the timing of accounts receivable payments receivable in 2005 instead of 2004 and the absence of a tax refund in 2003.

NET CASH USED BY INVESTING ACTIVITIES

Net cash used by investing activities for the year ended December 31, 2004 was $245.3 million, compared to net cash used of $1,229.6 million for the year ended December 31, 2003. The main reason for the decrease is less investment in acquisitions in 2004.

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Capital Expenditures

We focus our capital spending on growth initiatives and becoming the lowest cost producers of the highest quality products. Capital expenditures in 2004 of $241.7 million were $48 million higher than 2003, primarily due to 2004 spending for Therma-Tru, which Home and Hardware acquired in November 2003. We currently estimate 2005 capital expenditures will be in the range of $225 to $250 million, including discontinued operations. We expect to generate these funds internally.

Acquisitions, Dispositions and Joint Ventures

In 2004, Therma-Tru acquired Sentinel Doors Ltd., a leading U.K. manufacturer and installer of complete composite entry door systems and Master Lock acquired the assets of Dudley Inc., a leading brand of school locker locks in Canada. The aggregate purchase price of these two acquisitions was $30.9 million.

In 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc. for net cash of $924.0 million. In addition, our subsidiaries also acquired Wild Horse Winery, Capital Cabinet Corporation, American Lock Company and renewed licenses for Gilbey s gin and vodka and acquired trademark rights to the Kamchatka vodka brand in California. The aggregate cost of these acquisitions was $123.7 million.

NET CASH PROVIDED AND USED BY FINANCING ACTIVITIES

Net cash used by financing activities for the year ended December 31, 2004 was $515.6 million, as compared to net cash provided of $515.4 million in 2003. The change of $1.0 billion was primarily due to issuance of long-term debt of $599 million in 2003 to fund the acquisition of Therma-Tru, and higher share repurchases in 2004.

In November 2003, we acquired Therma-Tru Holdings, Inc. for net cash of $924.0 million. Initial financing of the acquisition was executed with issuance of commercial paper and subsequently partially paid down with two long-term debt issues totaling $600 million. This included $300 million of three-year notes and $300 million of ten-year notes.

Dividends

In 2004, we paid common dividends of $1.26 per share. Dividends paid to common stockholders in 2004 increased to $182.9 million from $166.9 million in 2003 as the increase in our dividend rate offset the lower shares outstanding. With the September 28, 2004 dividend payment, we increased the common stock quarterly dividend by 10% to $0.33 per share, or an indicated annual rate of $1.32 per share, reflecting the strength of our cash flow and operating performance, and our confidence in the Company s prospects.

Liquidity and Capital Resources

At December 31, 2004, total debt decreased $61.0 million to $1.9 billion. Short-term debt and long-term debt decreased $57.9 million and $3.1 million, respectively. Our total debt-to-total capital ratio decreased to 35.4% at December 31, 2004 from 39.7% at December 31, 2003. The decrease was primarily a result of a decrease in debt coupled with higher equity due to net income in excess of dividends and share repurchases.

At December 31, 2004, $2 billion of debt and equity securities were available for public sale under our universal shelf registration with the Securities and Exchange Commission.

At December 31, 2004, we maintained a $1.0 billion, five-year revolving credit agreement with various banks, which the Company entered into in July 2004. The interest rate was set at the time of each borrowing. The facility fee of 0.08% per annum is subject to increases up to a maximum fee of 0.15% per annum in the event the long-term debt rating falls below specified levels. Borrowings under the agreements are made for general corporate purposes, including acquisitions, share repurchases and support for the Company s short-term borrowings in the commercial paper market.

We believe that our internally generated funds, together with access to global credit markets, are adequate to meet our capital needs in both the short-and long-term.

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Working capital (current assets net of current liabilities) increased $457.8 million to $605.9 million at December 31, 2004. The principal reasons for the increase were higher accounts receivable primarily due to higher fourth quarter sales and increased inventories (to support growth at the Home & Hardware companies, and higher bulk inventories at Spirits & Wine), partly offset by improvements in working capital efficiency.

Foreign Exchange

We have investments in various foreign countries, principally Australia and Canada (and the United Kingdom for discontinued operations). Therefore, changes in the value of the currencies of these countries affect our balance sheet and cash flow statements when translated into U.S. dollars.

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. We record the payments or receipts on the agreements as adjustments to interest expense. At December 31, 2004 and 2003, the Company had outstanding interest rate swap agreements with an aggregate notional principal amount of $200 million. The swap agreements are based on the outstanding 2.875% notes due in 2006 which allow the agreements to be classified as a fair value hedge in accordance with FAS 133. The agreements effectively convert the interest paid on $200 million of underlying debt securities from a fixed rate to a floating rate based on a LIBOR reference rate.

The fair market value of long-term fixed interest rate debt is subject to interest rate 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 $1,239.9 million and $1,443.1 million total long-term debt (including current portion) at December 31, 2004 and 2003 was approximately $1,341.8 million and $1,564.8 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.

Minority Interest in Consolidated Subsidiaries

Minority interest in consolidated subsidiaries increased $1.5 million to $358.0 million.

Stockholders   Equity

Stockholders   equity at year-end 2004 increased $490.1 million principally due to higher net income, partly offset by dividends and share repurchases. We purchased, through open market purchases, $326.4 million (4.4 million shares) and $207.2 million (4.1 million shares) of common stock during 2004 and 2003, respectively.

Common Stock Repurchase Program

On February 24, 2004, our Board of Directors approved a share repurchase program pursuant to which we could purchase up to 5,000,000 shares of our common stock from March 1, 2004 to February 28, 2005. In 2004, we repurchased an aggregate of 4.4 million shares of our common stock, at an average purchase price of $73.58 per share under this program.

On February 22, 2005, our Board of Directors approved a new share repurchase program. The program authorizes our management to purchase up to 5,000,000 shares in open market transactions or privately negotiated transactions from March 1, 2005 to February 28, 2006. The program approved on February 22, 2005 replaces the similar program described above that expired on February 28, 2005. As with the prior program, our Board of Directors also granted authority to the Board s Executive Committee to authorize the purchase of up to an additional 5,000,000 shares on or prior to February 28, 2006 to the extent the Executive Committee determines it appropriate.

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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, 2004.

(In millions)	**Payments Due by Period as of December 31, 2004**				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Short-term borrowings	$ 669.8	$ 669.8	$	$	$
Long-term debt	1,241.1	0.1	300.0	200.0	741.0
Capital lease obligations	0.6	0.3	0.3		
Operating leases	126.8	38.7	49.2	25.8	13.1
Interest payments on long-term debt	862.6	68.7	128.7	101.3	563.9
Purchase obligations[(1)]	563.9	302.2	143.2	113.6	4.9

(1) Purchase obligations include contracts for raw material and finished goods purchases; advertising, selling and administrative services; and capital expenditures.

In addition to the contractual obligations listed above, we also had other commercial commitments for which we are contingently liable as of December 31, 2004. These include the guarantee of certain credit facilities and bank loans entered into by Maxxium up to an amount totaling $85 million, of which no amount expires in less than one year with the entire $85 million due in one to three years; a Shareholder Loan Facility executed by JBBW and Maxxium amounting to $20 million, for which no amounts were outstanding and which expires in one to three years; Standby Letters of Credit of $54.1 million of which $40.6 million were due in less than one year with the remaining $13.5 million due in one to three years; and Surety Bonds of $22.0 million of which $21.5 million were due in less than one year with the remaining $0.5 million due in one to three years. In addition, V&S holds an option which may require us to repurchase JBBW preferred stock, which V&S purchased for $344.5 million net of returns of capital, at fair value in whole or in part any time after May 31, 2004 or upon a change in control of JBBW, JBBCo., or certain other events. These contingent commitments are not expected to have a significant impact on our liquidity.

In addition to the obligations described above, JBBCo. in the event of the default of Future Brands, is required to satisfy certain of Future Brands financial obligations. These obligations include, but are not limited to, making payments to suppliers, employees and other parties with which Future Brands has contracts.

We do not have any other material off-balance sheet obligations.

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

Market Risk

We are exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. 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 foreign currency exchange rates and interest rates. The counterparties are major financial institutions.

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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 Financial Condition Interest Rates and is incorporated herein by reference.

A hypothetical 20 basis point change in interest rates affecting the Company s variable rate borrowings would not have a material effect on results of operations.

Foreign Exchange Contracts

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 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. The estimated fair value loss shown in the table below does not have a material impact on current results of operations or financial condition. 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, 2004 and 2003, respectively.

(In millions)	Estimated Amount of Loss	Period	Confidence Level
2004 foreign exchange	$ 2.7	1 day	95%
2003 foreign exchange	$ 1.4	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. At December 31, 2004 and 2003, the fair value of all outstanding contracts and the book value of the contracts were essentially the same.

Commodities

We are subject to price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. We use derivative contracts to manage our exposure to commodity price volatility. The exposures under these contracts are not considered material to our financial statements.

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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		
			Restated
(In millions, except per share amounts)	***2004***	**2003**	**2002**
NET SALES	$ 6,145.2	$ 5,112.6	$ 4,572.3
Cost of products sold	3,342.1	2,686.5	2,375.6
Excise taxes on spirits and wine	299.7	302.0	311.1
Advertising, selling, general and administrative expenses	1,433.6	1,236.4	1,094.7
Amortization of intangibles	35.4	17.2	14.1
Restructuring charges	9.8	2.2	11.6
OPERATING INCOME	1,024.6	868.3	765.2
Interest expense	77.3	63.9	60.4
Other income, net	(47.0)	(38.2)	(44.1)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	994.3	842.6	748.9
Income taxes	261.1	275.3	186.6
Minority interests	17.2	15.2	15.9
INCOME FROM CONTINUING OPERATIONS	$ 716.0	$ 552.1	$ 546.4
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	67.8	27.1	15.8
NET INCOME	$ 783.8	$ 579.2	$ 562.2
EARNINGS PER COMMON SHARE			
Basic			
Continuing operations	$ 4.93	$ 3.78	$ 3.65
Discontinued operations	0.47	0.19	0.11
Net earnings	$ 5.40	$ 3.97	$ 3.76
Diluted			
Continuing operations	$ 4.78	$ 3.68	$ 3.55
Discontinued operations	0.45	0.18	0.10
Net earnings	$ 5.23	$ 3.86	$ 3.65
DIVIDENDS PAID PER COMMON SHARE	$ 1.26	$ 1.14	$ 1.02
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	145.1	145.6	149.4
Diluted	149.9	150.3	154.0

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Fortune Brands, Inc. and Subsidiaries

(In millions, except per share amounts)	Restated December 31 *2004*	2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 85.1	$ 44.1
Accounts receivable from customers less allowances for discounts, doubtful accounts and returns (2004 $44.5 and 2003 $44.2)	654.5	602.3
Accounts receivable from related parties	133.3	112.9
Inventories		
Bulk whiskey	268.1	231.4
Other raw materials, supplies and work in process	285.8	246.8
Finished products	361.8	321.8
Total inventories	915.7	800.0
Other current assets	256.8	225.9
Current assets of discontinued operations	596.5	496.4
TOTAL CURRENT ASSETS	2,641.9	2,281.6
Property, plant and equipment		
Land and improvements	93.5	89.6
Buildings and improvements to leaseholds	544.4	535.0
Machinery and equipment	1,499.2	1,466.2
Construction in progress	107.0	78.6
	2,244.1	2,169.4
Less accumulated depreciation	1,024.6	981.5
Property, plant and equipment, net	1,219.5	1,187.9
Goodwill resulting from business acquisitions	2,005.1	2,439.5
Other intangible assets resulting from business acquisitions, net of accumulated amortization (2004 $225.2 and 2003 $187.3)	1,232.1	772.6
Investments in related parties	73.9	74.9
Other assets	343.9	326.2
Non-current assets of discontinued operations	367.2	362.2
TOTAL ASSETS	$ 7,883.6	$ 7,444.9

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Fortune Brands, Inc. and Subsidiaries

(In millions, except per share amounts)	Restated December 31 *2004*	Restated December 31 2003
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Notes payable to banks	$ 23.0	$ 21.3
Commercial paper	646.8	506.3
Current portion of long-term debt	0.4	200.5
Accounts payable to vendors	240.3	214.3
Accounts payable to related parties	30.9	30.4
Accrued taxes	181.8	333.2
Accrued customer programs	151.0	129.8
Accrued salaries, wages and other compensation	158.7	140.3
Accrued expenses and other current liabilities	279.2	271.7
Other current liabilities to related parties	7.2	24.7
Current liabilities of discontinued operations	316.7	261.0
TOTAL CURRENT LIABILITIES	2,036.0	2,133.5
Long-term debt	1,239.5	1,242.6
Deferred income	146.3	173.3
Deferred income taxes	445.5	401.1
Accrued retiree benefits	90.6	105.7
Postretirement and other liabilities	361.6	280.6
Long-term liabilities of discontinued operations	75.4	111.0
TOTAL LIABILITIES	4,394.9	4,447.8
Minority interest in consolidated subsidiaries	358.0	356.5
Stockholders equity		
$2.67 Convertible Preferred stock	7.1	7.5
Common stock, par value $3.125 per share, 229.6 shares issued	717.4	717.4
Paid-in capital	155.8	126.7
Accumulated other comprehensive income (loss)	6.4	(89.8)
Retained earnings	5,447.2	4,846.9
Treasury stock, at cost	(3,203.2)	(2,968.1)
TOTAL STOCKHOLDERS EQUITY	3,130.7	2,640.6
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 7,883.6	$ 7,444.9

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows Fortune Brands, Inc. and Subsidiaries

(In millions)	For years ended December 31 *2004*	**2003**	Restated **2002**
OPERATING ACTIVITIES			
Net income	$ 783.8	$ 579.2	$ 562.2
Restructuring charges	6.9	11.8	23.7
Depreciation and amortization	221.0	192.6	178.7
Deferred taxes	42.9	91.9	21.1
Deferred income	(27.0)	(27.0)	(27.0)
Write-down of identifiable intangibles		12.0	
(Increase) decrease in accounts receivable	(109.7)	(34.5)	51.1
(Increase) decrease in inventories	(113.6)	(29.8)	41.2
(Increase) decrease in other assets	3.7	(61.7)	(60.3)
Increase (decrease) in accounts payable	38.6	40.0	(54.4)
Decrease in accrued taxes	(93.1)	(16.5)	(16.2)
Increase (decrease) in accrued expenses and other liabilities	(14.1)	10.4	9.4
Tax benefit on the exercise of stock options	35.0	27.6	29.2
Other operating activities, net	17.5	(5.3)	28.3
NET CASH PROVIDED BY OPERATING ACTIVITIES	791.9	790.7	787.0
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(241.7)	(193.9)	(194.3)
Acquisitions, net of cash acquired	(30.9)	(1,047.7)	(433.0)
Proceeds from the disposition of property, plant and equipment	26.1	12.0	7.9
Proceeds from the disposition of operations, net of taxes and cash	1.2		18.6
NET CASH USED BY INVESTING ACTIVITIES	(245.3)	(1,229.6)	(600.8)
FINANCING ACTIVITIES			
Increase in short-term debt, net	138.8	365.2	122.5
Issuance of long-term debt		599.0	25.0
Repayment of long-term debt	(203.6)	(132.6)	(102.1)
Dividends to stockholders	(183.5)	(166.9)	(153.4)
Cash purchases of common stock for treasury	(326.4)	(207.2)	(271.1)
Proceeds received from exercise of stock options	77.8	96.0	135.4
Other financing activities, net	(18.7)	(38.1)	24.6
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(515.6)	515.4	(219.1)
Effect of foreign exchange rate changes on cash	29.3	12.7	(0.4)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 60.3	$ 89.2	$ (33.3)
Cash and cash equivalents at beginning of year (including discontinued operations)	$ 104.6	$ 15.4	$ 48.7
Cash and cash equivalents at end of year [(a)]	164.9	104.6	15.4
Cash paid during the year for (including discontinued operations)			

Interest	$ 91.0	$ 74.9	$ 76.3
Income taxes	310.3	163.8	147.2

(a) Includes cash and cash equivalents from discontinued operations at December 31, 2004 and 2003 of $79.8 million and $60.5 million, respectively, which are included in the balance sheet in current assets of discontinued operations.

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Stockholders Equity Fortune Brands, Inc. and Subsidiaries

(In millions except per share amounts)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Restated Retained Earnings	Treasury Stock, At Cost	Restated Total
Balance at December 31, 2001 (see Note 2 regarding adjustments relating to deferred taxes)	$ 8.6	$ 717.4	$ 113.2	$ (115.3)	$ 4,025.8	$ (2,762.5)	$ 1,987.2
Comprehensive income							
Net income					562.2		562.2
Foreign exchange adjustments				21.1			21.1
Minimum pension liability adjustments				(67.0)			(67.0)
Total comprehensive Income				(45.9)	562.2		516.3
Dividends ($1.14 per share)					(153.4)		(153.4)
Purchases (4.1 shares)						(278.0)	(278.0)
Tax benefit on exercise of stock options			29.2				29.2
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (3.2 shares)	(0.7)		(26.4)			160.1	133.0
Balance at December 31, 2002	7.9	717.4	116.0	(161.2)	4,434.6	(2,880.4)	2,234.3
Comprehensive income							
Net income					579.2		579.2
Foreign exchange adjustments				76.0			76.0
Minimum pension liability adjustments				(4.6)			(4.6)
Total comprehensive Income				71.4	579.2		650.6

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(In millions except per share amounts)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Restated Retained Earnings	Treasury Stock, At Cost	Restated Total
Dividends ($1.14 per share)					(166.9)		(166.9)
Purchases (4.1 shares)						(204.5)	(204.5)
Tax benefit on exercise of stock options			27.6				27.6
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (3.2 shares)	(0.4)		(16.9)			116.8	99.5
Balance at December 31, 2003	$ 7.5	$ 717.4	$ 126.7	$ (89.8)	$ 4,846.9	$ (2,968.1)	$ 2,640.6
Comprehensive income							
Net income					783.8		783.8
Foreign exchange adjustments				52.2			52.2
Minimum pension liability adjustments				44.0			44.0
Total comprehensive Income				96.2	783.8		880.0
Dividends ($1.26 per share)					(183.5)		(183.5)
Purchases (4.4 shares)						(322.1)	(322.1)
Tax benefit on exercise of stock options			35.0				35.0
Conversion of preferred stock (<0.1 shares) and delivery of stock plan shares (2.3 shares)	(0.4)		(5.9)			87.0	80.7
Balance at December 31, 2004	$ 7.1	$ 717.4	$ 155.8	$ 6.4	$ 5,447.2	$ (3,203.2)	$ 3,130.7

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies

BASIS OF PRESENTATION The consolidated financial statements include the accounts of Fortune Brands, Inc., after elimination of intercompany transactions, majority-owned subsidiaries (excluding a subsidiary, Future Brands LLC, in which a third party has substantive participating rights) and a subsidiary, Acushnet Lionscore Limited, in which it holds a minority interest but has substantive control as a result of the Company having operational decision-making powers over the entity. The accounts of certain foreign subsidiaries are consolidated as of November 30. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses for the reporting periods. Actual results for future periods could differ from those estimates.

Certain reclassifications have been made in the prior years financial statements to conform to the current year presentation. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations related to the 2005 spin-off of ACCO World Corporation were reclassified and separately stated in the accompanying consolidated statements of income for the years ended December 31, 2004, 2003 and 2002. The assets and liabilities of this discontinued operation were reclassified in the accompanying consolidated balance sheets as of December 31, 2004, 2003 and 2002. The cash flows from discontinued operations for the years ending December 31, 2004 and 2003 were not separately classified on the accompanying consolidated statements of cash flows.

RESTATEMENT Refer to Note 2, Restatement.

CASH AND CASH EQUIVALENTS Highly liquid investments with an original maturity of three months or less are included in cash and cash equivalents.

ALLOWANCES FOR DOUBTFUL ACCOUNTS Trade receivables are recorded at the stated amount less allowances for discounts, doubtful accounts and returns. Trade receivables do not include interest. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations, usually due to customers potential insolvency. 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.

INVENTORIES Inventories are priced at the lower of cost (principally first-in, first-out and average, with minor amounts at last-in, first-out) or market. In accordance with generally recognized trade practice, bulk whiskey inventories are classified as current assets, although the majority of these inventories, due to the duration of aging processes, ordinarily will not be sold within one year.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are carried at cost. Depreciation is provided, principally on a straight-line basis, over the estimated useful lives of the assets. Gains or losses resulting from dispositions are included in income. Betterments and renewals, which improve and extend the life of an asset, are capitalized; maintenance and repair costs are expensed as incurred. Estimated useful lives of the related assets are as follows:

Buildings and leasehold improvements	15 to 40 years
Machinery and equipment	3 to 10 years

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies (Continued)

LONG-LIVED ASSETS In accordance with Statement of Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long-lived Assets, a long-lived asset (including amortizable identifiable intangibles) 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, we compare 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. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on the Company s weighted-average cost of capital, risk adjusted where appropriate, which represents the blended after-tax costs of debt and equity.

GOODWILL AND INDEFINITE-LIVED INTANGIBLES Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets, requires goodwill to be tested for impairment on an annual basis and under certain circumstances, and written down when impaired, rather than amortized as previous standards required. 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 discounted cash flows of the businesses to which the goodwill relates. We use a rate corresponding to our cost of capital, risk adjusted where appropriate, in determining discounted cash flows. Estimated cash flows are then determined by disaggregating the business segments to a reporting level for which meaningful identifiable cash flows can be determined. When estimated future discounted cash flows are less than the carrying value of the net assets (tangible and identifiable intangibles) and related goodwill, we perform an impairment test to measure the amount of the impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit s goodwill over the implied fair value of that goodwill. In determining the estimated future cash flows, we consider current and projected future levels of income based on management s plans for that business, as well as business trends, prospects and market and economic conditions.

FAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Certain of our tradenames have been assigned an indefinite life as it was deemed that these tradenames are currently anticipated to contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets will not be amortized, but are required to be evaluated at each reporting period to determine whether the indefinite useful life is appropriate.

We review indefinite-lived intangibles for impairment annually, and whenever market or business events indicate there may be a potential impact on that intangible. We consider the implications of both external (e.g., market growth, pricing, competition, technology) and internal factors (e.g., product costs, margins, support expenses, capital investment) and their potential impact on cash flows for each business in both the near and long term, as well as their impact on any identifiable intangible asset associated with the business in developing and executing our short-term and long-term plans. Based on recent business results, consideration of significant external and internal factors, and the resulting business projections, indefinite-lived intangible assets associated with that segment are reviewed to determine whether they are likely to remain indefinite-lived, or whether a finite life is more appropriate. In addition, based on events in the period and future expectations, management considers whether the potential for impairment exists as required by FAS 142.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies (Continued)

Our predominant method of approximating fair value in determining whether an impairment exists is to use cash flow projections. We measure impairment based on discounted expected future cash flows attributable to the tradename compared to the carrying value of that tradename. When separate cash flow information is not available, we use the relief-from-royalty approach. Fair value is represented by the present value of hypothetical royalty income over the remaining useful life. Where information is not available to determine an appropriate royalty rate, we utilize a profit split methodology, which is a customary valuation practice, to establish a reasonable royalty rate. Profit split analyses allocate economic income (EBITDA less returns on working capital and fixed assets employed) between a tradename and residual assets of the economic unit in determination of the expected profit margin associated with commercialization of the tradename. Additionally, independent valuation experts are used for periodic review and testing of management s assumptions relative to all significant trade valuations and lives, and for independent research on market and competitive dynamics.

In conjunction with our ongoing review of the carrying value of our identifiable intangibles, in 2003, the Company recorded a non-cash write-down of identifiable intangibles of $12.0 million, $8.0 after tax in discontinued operations in conjunction with the repositioning of the Office business. There were no write-downs in 2004.

WARRANTY RESERVES We offer customers various warranty terms based upon the type of product that is sold. We determine warranty expense in accordance with the policy established at each operating company. The main consideration is historic claim experience, which is company-specific based upon the nature of the product category. Warranty expense is generally recorded in cost of products sold at the time of sale. Refer to Note 17 in the Consolidated Financial Statements.

EMPLOYEE BENEFIT PLANS We provide a range of benefits to employees and retired employees, including pensions, post-retirement, post-employment and health care benefits. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which reflect various actuarial assumptions, including discount rates, expected long-term rates of return on plan assets, compensation increases, turnover rates and health care cost trend rates. The discount rate is based on high quality, fixed income bonds with maturities corresponding to the benefit obligations. The long-term expected rate of return on plan assets reflects the mix of the plan asset investments. Compensation increases reflect expected future compensation trends. The health care cost trend rates reflect expected changes in health care costs based on historical rates and estimates of future changes. We review our actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As required by U.S. generally accepted accounting principles, the effect of the modifications are generally recorded or amortized over future periods. We believe that the assumptions utilized in recording obligations under the plans, which are presented in Note 12 to the Consolidated Financial Statements, are reasonable based on experience and on advice from independent actuaries. We will continue to monitor these assumptions as market conditions warrant.

ENVIRONMENTAL 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, 2004 and 2003, environmental accruals amounted to $46.2 million and $48.5 million, respectively, and are included a non-current liability on the balance sheet.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies (Continued)

INCOME TAXES In accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, 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.

We do not provide deferred income taxes on undistributed earnings of foreign subsidiaries that we expect to permanently reinvest. The undistributed earnings of foreign subsidiaries aggregated $397.6 million at December 31, 2004, including $208.0 million related to discontinued operations.

REVENUE RECOGNITION In accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition, the Company recognizes revenue as products are shipped to customers, net of applicable provisions for discounts, returns and allowances. We also provide for an estimate of potential bad debt at the time of revenue recognition.

Amounts billed for shipping and handling are classified in net sales to customers in the consolidated income statement. Costs incurred for shipping and handling are classified in advertising, selling, general and administrative expenses. Shipping and handling costs included in advertising, selling, general and administrative expenses were $185.3 million, $150.8 million and $142.6 million for 2004, 2003 and 2002, respectively.

CUSTOMER PROGRAM COSTS The Company generally recognizes customer program costs in either net sales to customers 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 to customers 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 store service fees.

In addition, accrued customer programs principally include general customer program costs, cooperative advertising, volume allowances and shared media. 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, level of returns and customer employee training.

ADVERTISING COSTS Advertising costs, which amounted to $512.0 million, $470.5 million and $451.5 million for 2004, 2003 and 2002, respectively, are principally expensed as incurred.

RESEARCH AND DEVELOPMENT Research and development expenses, which amounted to $68.7 million, $58.1 million and $55.9 million in 2004, 2003 and 2002, respectively, are expensed as incurred.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies (Continued)

STOCK-BASED COMPENSATION We elected to apply Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for our stock plans as allowed under Financial Accounting Standards No. 148 (FAS 148), Accounting for Stock-Based Compensation Transition and Disclosure. As a result, no compensation expense has been recognized for the stock options plans. In accordance with FAS 148 we, for purposes of its pro forma disclosure, determined our compensation expense in accordance with the Black-Scholes option-pricing model. Had compensation cost for the fixed stock options been determined consistent with FAS 148, pro forma net income and earnings per common share for 2004, 2003 and 2002 would have been as follows:

(In millions, except per share amounts)	2004	2003	Restated 2002
Net income as reported	$ 783.8	$ 579.2	$ 562.2
Add: Stock-based employee compensation (performance awards) included in reported net income, net of tax	12.3	11.9	6.2
Deduct: Total stock-based employee compensation (performance awards and options) determined under the fair-value based method for all awards, net of tax	(39.1)	(30.1)	(22.5)
Pro forma net income	$ 757.0	$ 561.0	$ 545.9
Earnings per common share			
Basic as reported	$ 5.40	$ 3.97	$ 3.76
Basic pro forma	$ 5.21	$ 3.85	$ 3.65
Diluted as reported	$ 5.23	$ 3.86	$ 3.65
Diluted pro forma	$ 5.06	$ 3.74	$ 3.55

FOREIGN CURRENCY TRANSLATION Foreign currency balance sheet accounts are translated into U.S. dollars at the rates of exchange at the balance sheet date. Income and expenses are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to a separate component of the Accumulated other comprehensive loss caption in stockholders equity. Some transactions are made in currencies different from an entity s functional currency. Gains and losses on these foreign currency transactions are classified on the statement of income depending on the nature of the item.

DERIVATIVE FINANCIAL INSTRUMENTS In accordance with Statement of Financial Accounting Standards Statement No. 133 (FAS 133), Accounting for Derivative Instruments and Hedging Activities and its related amendment Statement of Financial Accounting Standards Statement No. 138 (FAS 138), Accounting for Certain Derivative Instruments and Certain Hedging Activities, all derivatives are recognized as either assets or liabilities on the balance sheet and 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 income statement 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, 2004, less than $0.1 million in deferred losses were reclassified to cost of products sold. During the year ended December 31, 2003, $3.3 million in deferred losses were reclassified to cost of products sold. During the year ended December 31, 2002, $0.6 million in deferred gains were reclassified to cost of products sold. We estimate that $9.6 million of derivative loss included in OCI as of December 31, 2004 will be reclassified to earnings within the next twelve months.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

1. Significant Accounting Policies (Continued)

Foreign Currency Risk Certain forecasted transactions, assets and liabilities are exposed to foreign currency risk. We continually monitor our foreign currency exposures in order to maximize the overall effectiveness of our foreign currency hedge positions. Principal currencies hedged include the Canadian dollar, Euro, Australian dollar and Pound sterling.

Interest Rate Risk 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 amounts. We record the payments or receipts on the agreements as adjustments to interest expense. At December 31, 2004 and 2003, we had outstanding interest rate swap agreements on the outstanding 2.875% notes due in 2006 which allow the agreements to be classified as a fair value hedge in accordance with FAS 133. The agreements effectively convert the interest paid on $200 million of underlying debt securities from a fixed rate to a floating rate based on a LIBOR reference rate.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which was effective for newly created variable interest entities as of January 31, 2003 and was effective for existing variable interest entities as of October 1, 2003. The objective of FIN 46 is to improve financial reporting by companies having transactions involving variable interest entities. In December 2003, the FASB issued a revision to FIN 46 (FIN46R). FIN 46 and FIN 46R did not have a material impact on our results or financial position.

In May 2004, the FASB issued FASB Staff Position No. 106-2 (FSP 106-2), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Prescription Act). FSP 106-2 provides guidance on the accounting for, and disclosure of, the effects of the Medicare Prescription Act enacted in December 2003. The Medicare Prescription Act will provide a prescription drug benefit under Medicare Part D, as well as provide a federal subsidy to employers that provide a program for prescription drug benefits that is at least actuarially equivalent to Medicare Part D.

We adopted FSP 106-2 prospectively in the third quarter of 2004. Several of our postretirement plans qualify for the federal subsidy; however, the adoption of FSP 106-2 did not have a material impact on our results of operations. The subsidy, which will result in lower future expense, reduced our accumulated postretirement benefit obligation by $10.9 million, or 6%.

In December 2004, the FASB issued FASB Staff Position No. 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). The Act provides for a special one-time dividends received deduction on the repatriation of foreign earnings. As a result of FSP 109-2, we recorded an income tax benefit of $4.6 million in 2004 in income from continuing operations. Income tax expense of $1.2 million was recorded in discontinued operations. See Note 14 to the Consolidated Financial Statements.

In December 2004, the FASB issued Financial Accounting Standards No. 123 (revised 2004) (FAS 123R), Share-Based Payment. FAS 123R replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FAS 123R requires compensation expense, measured as the fair value at the grant date, related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. We intend to adopt FAS 123R using the modified prospective transition method as defined in FAS 123R. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. FAS 123R is effective for our third quarter 2005. We are evaluating the impact of FAS 123R on our results and financial position.

Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

2. Restatement

During the preparation of our 2005 financial statements, it was determined that the Company did not establish deferred taxes for certain identifiable intangibles acquired prior to the implementation of FAS 109, Accounting for Income Taxes, which was effective for our fiscal year beginning January 1, 1993. In addition, the Company did not appropriately record certain deferred tax liabilities on intangible assets acquired subsequent to the implementation of FAS 109. This restatement corrects the accounting for the errors and includes the rollforward effect of the restatement on stockholders equity, including the tax benefit of intangible asset write-offs and intangible asset amortization in 2000, 2001 and 2002. The restatement also corrects the prior period in which deferred tax liabilities were incorrectly recorded for intangible assets acquired subsequent to the implementation of FAS 109. The cumulative effect of correcting these errors increased January 1, 2002 deferred tax liabilities by $115.5 million ($73.4 million continuing operations and $42.1 million discontinued operations) and decreased 2002 opening retained earnings by $115.5 million. The effect of the restatement on the Company s net income, earnings per share and financial condition is immaterial for all periods presented.

3. Goodwill and Other Identifiable Intangibles

We had net goodwill of approximately $2.0 billion as of December 31, 2004. The decrease in goodwill during the twelve months ended December 31, 2004 of $434.4 million from $2.4 billion as of December 31, 2003 was principally attributable to the recognition of identifiable intangible assets that were previously included in goodwill for the 2003 acquisition of Therma-Tru ($488.1 million). Goodwill increased during the year ended December 31, 2003 by $995.9 million due to the acquisitions of Therma-Tru, Capital Cabinet, American Lock and Wild Horse Winery, as well as the conclusion of Omega purchase accounting in 2003 and foreign currency fluctuations.

The Company s goodwill by segment is as follows:

	Years ended December 31,	
(In millions)	***2004***	**2003**
Home and Hardware	$ 1,726.3	$ 2,159.2
Spirits and Wine	265.6	267.6
Golf	13.2	12.7
	$ 2,005.1	$ 2,439.5

We also had indefinite-lived intangibles, principally tradenames, of $701.8 million as of December 31, 2004 compared to $399.8 million as of December 31, 2003. The increase of $302.0 million was due to the recognition of identifiable intangible assets previously included in goodwill for the acquisition of Therma-Tru ($234.2 million) and reclassification of a tradename as the result of assessing the factors noted below ($64.8 million).

We carry identifiable intangibles, principally tradenames, that are subject to amortization over their estimated useful life, either 15 or 30 years, based on the assessment of a number of factors that may impact useful life. These factors include historical and tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, financial results and other relevant factors. The gross carrying value and accumulated amortization of amortizable intangible assets were $677.2 million and $146.9 million, respectively, as of December 31, 2004, compared to $508.9 million and $136.1 million, respectively, as of December 31, 2003. The gross carrying value increase was principally due to the recognition of amortizable identifiable intangible assets previously included in goodwill for the acquisition of Therma-Tru ($253.9 million), partly offset by the reclassification of a tradename as the result of heightened consumer name recognition in recent years due to increased and ongoing plans for tradename promotion, successful product research and development efforts and plans for continued investment, and favorable consumer perceptions regarding product quality and innovation ($85.6 million). During the twelve months ended December 31, 2003, the Company recorded a write-down of identifiable intangibles of $12.0 million ($8.0 million after tax) in discontinued operations to recognize the diminished values of certain trade names in our Office business.

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Notes to Consolidated Financial Statements Fortune Brands, Inc. and Subsidiaries

3. Goodwill and Other Identifiable Intangibles (Continued)

The gross carrying value and accumulated amortization by class of intangible assets as of December 31, 2004 and 2003 are as follows:

	As of December 31, 2004			As of December 31, 2003		
(In millions)	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived intangible assets - tradenames	$ 780.1	$ (78.3)[(1)]	$ 701.8	$ 451.0	$ (51.2)[(1)]	$ 399.8
Amortizable intangible assets						
Tradenames	331.0	(108.1)	222.9	425.2	(127.2)	298.0
Customer and contractual relationships	255.5	(28.8)	226.7	73.5	(8.7)	64.8