FORTUNE BRANDS INC
Form 10-K
February 23, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# Form 10-K

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission file number 1-9076

# Fortune Brands, Inc.

(Exact name of registrant as specified in its charter)

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

**520 Lake Cook Road, Deerfield, IL 60015-5611**

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act.

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

(Do not check if a smaller

reporting company)

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

Yes ¨ No x

The aggregate market value of the registrant s voting stock held by non-affiliates of the registrant at June 30, 2010 (the last day of our most recent second quarter) was $5,951,576,309.04. The number of shares outstanding of the registrant s common stock, par value $3.125 per share, at February 4, 2011, was 153,422,247.

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DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Stockholders of registrant to be held on April 26, 2011 (to be filed not later than 120 days after the end of registrant s fiscal year) (the 2011 Proxy Statement ) is incorporated by reference into Part III hereof.

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**PART I**

**Item 1. Business.**

(a) General development of business.

Fortune Brands, Inc. is a leading consumer products company with operating companies that make and sell branded products worldwide in the distilled spirits, home and security, and golf markets. References to we, our and the Company refer to Fortune Brands, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

We strive to enhance shareholder value in a variety of ways, including:

> profitably building leading consumer brands to drive sales and earnings growth and enhance returns on a long-term basis,

> positioning our brands and businesses to outperform their respective markets by:

developing innovative new products and effective marketing programs,

expanding customer relationships,

extending brands into adjacent categories, and

developing international growth opportunities,

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

> promoting organizational excellence by developing winning cultures and associates,

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

> pursuing investments with the highest return opportunities.

While our first priority is internal growth, we also strive to create shareholder value through add-on acquisitions, dispositions, joint ventures and other strategic alternatives. In addition, we seek to enhance shareholder value through other initiatives, such as using our financial resources to pay dividends and repurchase shares, when deemed appropriate. Our current priority is to pay down debt.

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

As a holding company, the Company is a legal entity separate and distinct from its subsidiaries. Accordingly, the right of the Company, and thus the right of the Company s creditors (including holders of debt securities and other obligations) and shareholders 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 subsidiaries 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.

On December 8, 2010, we announced that the Board of Directors approved in principle a separation of the Company s three business segments (Proposed Separation). The broad plan includes: the continuation of Fortune Brands as an independent, publicly-traded company focused solely on the Spirits business; the tax-free spin-off to shareholders of the Home & Security business into an independent publicly-traded company; and exploring the sale or tax-free spin-off of the Golf business. The Company currently expects to complete the transactions by the end of 2011. While over the years the benefits of breadth and balance of our portfolio have facilitated the building of three large, leading and profitable consumer businesses, each business has now reached a point of strength and scale coming out of the recent economic downturn where we believe the benefits of focus are substantially greater. As separate businesses, we believe we will significantly enhance each business s long-term growth and return prospects as well as offer substantially greater total long-term value to shareholders. Focused capital structures and share ownership for each business will create even greater strategic flexibility to pursue profitable organic growth investments as well as to compete for high return acquisitions. In addition, dedicated management teams and boards of directors for each business will enable faster and more effective operational and strategic decision-making. Lastly, as standalone companies concentrated on building brands and outperforming their respective consumer categories, each business will be able to provide targeted equity-based incentive compensation that will be a more effective management tool to attract, motivate and retain key employees. For a description of certain factors that may have had, or may in the future have, a significant impact on our business, results of operations, cash flows or financial condition, see Item 1A. Risk Factors and Item 7 Management s Discussion and Analysis of Results of Financial Condition and Results of Operations.

We made the following acquisitions and divestitures in recent years:

In 2010:

> We sold certain non-strategic German spirits brands and related assets (August 2010). In addition, we sold the Cockburn port brand and inventory (December 2010). The proceeds from these two transactions were $49.2 million in aggregate.

> We sold our Cobra golf product line to PUMA North America, Inc. for $88.9 million. The asset sale included the Cobra golf brand and related inventory, intellectual property and endorsement contracts (April 2010).

In 2009:

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

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

In 2008:

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

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

In 2007:

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

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

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

In 2006:

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

> We sold the Cockburn s port wine production assets, retaining the ownership of the brand and worldwide intellectual property rights, which was subsequently sold in 2010, for $66.4 million (July 2006).

On an ongoing basis, we review the portfolio of brands owned by our operating companies and evaluate options for increasing shareholder value. Although no assurance can be given as to whether or when any acquisitions or dispositions may be made, we believe that we could finance acquisitions by issuing additional debt or equity securities. The possible additional securities from any completed acquisitions could increase the Company s indebtedness or shares outstanding, and these debt or equity securities might impact the Company s diluted earnings per share. We also consider other corporate strategies intended to enhance shareholder value, including share repurchases and changes to our dividend payments. We cannot predict whether or when any particular strategy might be implemented or what the financial effect thereof might be upon the Company s results of operations, cash flows or financial condition.

**Forward-Looking Statements**

This Annual Report on Form 10-K contains statements relating to future results. Readers are cautioned that these are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties. Readers are cautioned that these forward-looking statements speak only as of the date hereof, and the Company does not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date of this Report. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

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

> expiration of government stimulus programs,

> competitive market pressures (including pricing pressures),

> successful development of new products and processes,

> consolidation of trade customers,

> customer defaults and related bad debt expense,

> unanticipated developments that delay or negatively impact the Proposed Separation,

> disruption to operations as a result of the Proposed Separation,

> inability of one or more of the businesses to operate independently following the completion of the Proposed Separation,

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

> any possible downgrades of the Company s credit ratings,

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

> interest rate fluctuations,

> commodity and energy price volatility,

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

> ability to secure and maintain rights to intellectual property,

> inability to attract and retain qualified personnel,

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

> the status of the U.S. rum excise tax cover-over program,

> the impact of excise tax increases on distilled spirits,

> dependence on performance of distributors and other marketing arrangements,

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

> tax law changes and/or interpretation of existing tax laws,

> potential liabilities, costs and uncertainties of litigation,

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

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

> weather,

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

(b) Financial information about segments.

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

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(c) Narrative description of business.

The following is a description of the business of the subsidiaries of the Company in the Spirits, Home & Security, and Golf business segments. Annual revenues for products associated with each of these segments were as follows:

| *(In millions)* | *2010* | 2009 | 2008 |
|---|---|---|---|
| Spirits products | $ 2,665.9 | $ 2,469.6 | $ 2,480.9 |
| Home & Security products | 3,234.0 | 3,006.8 | 3,759.1 |
| Golf products | 1,241.6 | 1,218.3 | 1,368.9 |
| Total | $ 7,141.5 | $ 6,694.7 | $ 7,608.9 |

Spirits products consist of distilled spirits manufactured and marketed under a number of trademarks. Principal products include bourbon, whisky, tequila and cognac. Home & Security products consist of branded products used for residential home repair, remodeling, new construction, security, and storage. Golf products principally include balls, clubs, and shoes manufactured and marketed under a number of trademarks. For additional financial information about these business segments, see Note 19, Information on Business Segments, to the Consolidated Financial Statements in Item 8 of this Form 10-K. A more detailed description of each segment is contained below.

**Spirits**

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

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

Our spirits products are primarily sold through direct sales forces to distributors. In addition, we sell spirits products through joint ventures in which the Spirits business is a shareholder with The Edrington Group Ltd. (TEG), as well as through third-party distributors and global or regional duty free customers. Products are also sold through government-controlled liquor authorities in the 18 control states (and one county) in the U.S. and Liquor Control Boards in Canada that have established government control over certain aspects of the purchase and distribution of alcoholic beverages. The peak season for the Spirits business is the fourth calendar quarter due to holiday buying.

In August 2010, we sold certain non-strategic German spirits brands and related assets. As a result, we recorded a pre-tax loss of $8.6 million ($12.4 million after tax). In addition, in December 2010, we sold the Cockburn port brand and inventory. We recorded a pre-tax loss of $7.4 million ($6.8 million after tax) in connection with that transaction. The proceeds from these two transactions were $49.2 million in aggregate. In July 2006, we had sold the Cockburn s port wine production assets for $66.4 million, but had retained the ownership of the brand and worldwide intellectual property rights.

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

Prior to April 1, 2009, BGSW owned a 25% interest in the Maxxium international spirits sales and distribution joint venture. The other equal partners in Maxxium were Rémy Cointreau S.A. (Rémy), V&S and TEG. In accordance with a Settlement Agreement executed in September 2008, on March 30, 2009, Rémy and V&S exited the joint venture and BGSW became a 50% owner of Maxxium with TEG.

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

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

In December 2007, we sold the remainder of our U.S. wine assets to Constellation Brands Inc. (Constellation) for $887.0 million after selling two wine brands and related assets to E. & J. Gallo Winery in August 2007. The two transactions are collectively referred to as the sale of the U.S. Wine business. The sale to Constellation included Beam Wine Estates, Inc. s table wine brands (including Clos du Bois, Geyser Peak, Wild Horse), as well as the associated vineyards and winemaking assets, but excluded its fortified wine brands (Harveys sherries and Cockburn s port). In addition, in December 2007, we also sold the U.S. distribution rights and related assets of The Dalmore Scotch Whisky to UB Group for $58 million.

Principal markets for the products of the Spirits business are the U.S., Australia, Europe and Canada. Approximately 45% of our Spirits business s sales are to markets outside the U.S.

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

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

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

The principal raw materials used in the production of cognacs and fortified wines are grapes, barrels and glass for bottles. Grapes are purchased primarily from independent growers under long-term supply contracts or purchased on the spot market, and, from time to time, are affected by weather and other forces that may impact production and quality.

The production, storage, transportation, distribution and sale of our Spirits products are subject to regulation by federal, state, local and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits and fortified wines in whole or in part.

In many of the key markets for our Spirits business, distilled spirits are subject to federal excise taxes and/or customs duties, as well as state/provincial, local and other taxes. Beverage alcohol sales could be adversely impacted by higher excise tax rates. Although no federal excise tax increase is presently pending in the U.S., our largest market, there were excise tax increases in several U.S. states in 2009. Several state excise tax increases were proposed during 2010 and were all defeated, but the possibility of future increases cannot be ruled out, particularly in light of government budget issues. In April 2008, the Australian government increased excise taxes on ready-to-drink spirits products by 70%, equating to a 25% price increase to consumers, which adversely impacted demand for Beam s pre-mixed products including Jim Beam & Cola. Year-over-year operating income was negatively impacted by the excise tax increase until its impact annualized at the end of April of 2009. Excise or other tax increases are also considered from time to time in other key markets such as the U.K., Spain and Mexico. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases could have an adverse effect on our business, financial condition and results of operations.

**Home & Security**

Fortune Brands Home & Security LLC (Home & Security) is a holding company for subsidiaries in the home products industry. Subsidiaries include MasterBrand Cabinets, Inc. (MasterBrand Cabinets), Moen Incorporated (Moen), Therma-Tru Corp. (Therma-Tru), Simonton Holdings, Inc. (Simonton) and Fortune Brands Storage and Security LLC (Storage and Security). Home & Security s operating companies compete on the basis of innovation, fashion, product quality, price, service and responsiveness to distributor and retailer needs, and end-user consumer preferences. The home and security industry is very competitive. Factors that affect our Home & Security business s results of operations include levels of home improvement and residential construction activity, principally in the U.S. Approximately 15% of Home & Security s sales are to international markets.

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

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

Therma-Tru is a leading residential entry door brand in the United States. Therma-Tru manufactures fiberglass and steel residential entry door and patio door systems, primarily for sale in the United States and Canada. Therma-Tru s principal customers are home centers and millwork building products distributors that provide products to the residential new construction market and home centers, as well as to the remodeling and renovation markets. Therma-Tru s competitors include Masonite, JELD-WEN and Plastpro.

In June 2006, we acquired SBR, Inc., a privately held company consisting of brands including Simonton Windows, a leading brand of vinyl-framed windows and patio doors. Simonton products are principally manufactured and sold in the United States. Simonton s principal customers are home centers, wholesale distributors and specialty dealers that provide products to the residential market, primarily for both retrofit and new construction applications. Simonton s competitors include Silverline (owned by Andersen Windows), Atrium and Milgard.

Storage and Security is comprised of the Master Lock and Waterloo product lines. Master Lock Company LLC (Master Lock) manufactures and sells key-controlled and combination padlocks, bicycle and cable locks, built-in locker locks, door hardware, automotive, trailer and towing locks and other specialty safety and security devices. Products designed for consumer use are sold to wholesale distributors, home centers and hardware and other retail outlets. Lock systems are sold to industrial and institutional users, original equipment manufacturers and retail outlets. Master Lock competes with Abus, W.H. Brady, Hampton, Kwikset, Schlage and various imports. Master Lock is the #1 padlock manufacturer in North America. Waterloo Industries, Inc. (Waterloo) manufactures tool and garage storage products, principally high-quality steel toolboxes, tool chests, workbenches and related products. Waterloo sells to Sears for resale under the Craftsman brand owned by Sears, and under the Waterloo brand name to specialty industrial and automotive dealers, mass merchandisers, home centers and hardware stores. Waterloo competes with Snap-On, Kennedy, Stanley, Stack-On and others in the metal storage segment, and with Stanley, Keter, Rubbermaid and others in the plastic hand box category. Waterloo is the #1 retail tool storage manufacturer in the U.S.

Product innovation and branding are important to the success of the Home & Security business. In addition to the previously discussed trademarks, patent protection helps distinguish our unique product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. The Home & Security business holds U.S. and foreign patents covering various features used in our faucet and bath furnishings, entry doors, windows, locks and security products as well as storage products.

Raw materials used for the manufacture of products offered by Home & Security s operating companies are primarily red oak, maple and pine lumber, particleboard, rolled steel, brass, zinc, copper, nickel, aluminum, glass and various plastic resins. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the cost of manufacturing our products.

**Golf**

Acushnet Company (Acushnet or the Golf business), together with its subsidiaries, is a leading manufacturer and marketer of golf balls, golf clubs, golf shoes and golf gloves. Other products include golf bags, golf outerwear and accessories. Acushnet s leading brands are Titleist and Pinnacle golf balls; Titleist golf clubs; Scotty Cameron by Titleist putters; Vokey Design wedges; FootJoy golf shoes; FootJoy and Titleist golf gloves; and FootJoy outerwear. Acushnet products are sold primarily to on-course golf pro shops and selected off-course golf specialty stores, sporting goods stores, mass merchants and select warehouse clubs throughout the United States. Sales are made directly in the U.S. and in key international markets. In some international markets, sales are made through distributors or agents. Approximately 45% of Acushnet s sales are to international markets.

In April 2010, we sold our Cobra golf product line to PUMA North America, Inc. for $88.9 million. The asset sale included the Cobra golf brand and related inventory, intellectual property and endorsement contracts. The sale resulted in a pre-tax gain of $11.3 million ($10.0 million after tax).

Acushnet and its subsidiaries compete on the basis of product quality, product innovation, price, service and responsiveness to consumer preferences. The golf products industry is very competitive. Acushnet has the leading market positions in golf balls (Titleist and Pinnacle), golf shoes and golf gloves (FootJoy). Acushnet also is a leading U.S. competitor in golf clubs (Titleist). In golf balls, Acushnet s main competitors are Bridgestone, Callaway, Nike, TaylorMade and Srixon. In golf clubs, TaylorMade, Callaway, Ping, Cleveland, Nike, Cobra, Adams, Mizuno and Bridgestone are the primary competitors. In golf shoes, Adidas, Nike and ECCO are the main competitors. In golf gloves, Nike, Callaway and TaylorMade are the primary competitors. Acushnet s business is seasonal and approximately 60% of sales occur in the first half of the year and less than 20% in the fourth quarter.

Principal raw materials for the Company s golf business include petro-based rubber, urethane and paint materials, steel/titanium golf club heads and golf club shafts, and natural and synthetic leathers. While these materials are generally available, due to the stringent material specifications required to produce our golf clubs, balls, shoes and gloves, many of our materials are single sourced or are concentrated in a small supplier base. As a result, we are subject to risk of business disruption if a supplier is not able to perform and there are resulting delays or interruptions in the raw material supply chain.

Acushnet s advertising and promotional campaigns feature a large number of touring professionals and club professionals using and endorsing its products. The market for the endorsement and promotional services of touring professionals has been and is expected to be increasingly competitive.

Branding and product innovation are both important to the success of the Golf business. The Titleist, FootJoy and Pinnacle trademarks are of particular importance to the business. Product innovation is a powerful growth engine in the golf segment, and our patent portfolio is an important resource to help prevent third parties from copying or exploiting our innovations. The Company holds United States and foreign patents covering innovations and design features used in our golf balls, golf clubs and shoes, and holds other licenses, trademarks and tradenames. There continues to be a substantial

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issue with counterfeit golf clubs, which copy the protected features of original equipment manufacturers golf club products. Acushnet has an active program of enforcing intellectual property rights against those who make or sell these products.

**Employees**

As of December 31, 2010, the Company and its subsidiaries had approximately the following number of employees:

| | |
|---|---|
| Spirits | 3,300 |
| Home & Security | 16,100 |
| Golf | 5,100 |
| Corporate | 100 |
| Total | 24,600 |

Approximately 23% of our employees are covered by collective bargaining agreements, of which 40% are subject to agreements that will expire within one year from the filing date of this Form 10-K. Employee relations are generally good.

**Environmental Matters**

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We adjust accruals as new information develops or circumstances change, and accruals are not discounted. At December 31, 2010 and 2009, environmental accruals amounted to $21.3 million and $24.5 million, respectively, and are included in non-current liabilities on our balance sheet. In our opinion, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties, including insurers) will not have a material adverse effect upon our results of operations, cash flows or financial condition. See Item 7 Management s Discussion and Analysis of Results of Financial Condition and Results of Operations Pending Litigation Environmental Matters for more information.

(d) Financial Information about Geographic Areas.

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

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(e) Available Information.

The Company s website address is www.fortunebrands.com. The Company s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company s website as soon as reasonably practicable after the reports are filed or furnished electronically with the SEC. We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Policies, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, Charters for the Committees of our Board of Directors and other information related to the Company.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**Item 1A. Risk Factors.**

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

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

Stable economic conditions globally, including strong employment, consumer confidence and credit availability, are important not only to the basic health of our consumer markets, but also our own financial condition. While the major economic disruptions of the global financial markets have subsided, significant economic challenges remain globally, including high unemployment, low consumer confidence, record budget deficits and levels of government debt, and fragile credit and housing markets. As a result, consumers increased price consciousness may endure. These factors may adversely impact our financial results and liquidity. A prolonged global economic stagnation may impact our access to long-term capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially impact our ability to pay dividends, fund acquisitions and repurchase shares in the future.

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

Our home products business is primarily impacted by U.S. demand for remodeling and repair of existing homes, as well the market for new homes. Demand for our products is strongly influenced by the financial strength and confidence of consumers, and by consumers household income, job security, access to credit and belief in housing as a sound investment. While home prices have begun to stabilize, the housing market continues to face downward pressures resulting from high levels of inventory and foreclosures. In addition, the withdrawal of supportive government programs for home products, such as the first time home buyer tax credit, the energy tax credit and the distressed mortgage buying programs decreased demand and, at least in the short term, negatively impacted the housing recovery. Demographic factors, such as aging housing stock, changes in population growth and household formation will have a long-term effect on the home improvement, repair and residential construction markets. While demographic trends are favorable for the long-term growth of the U.S. home products market, it is very difficult to predict the timing and sustainability of the recovery.

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*We operate in very competitive consumer categories, subject to changes in consumer trends.*

While we largely compete for customers on the basis of product quality, brand strength and service, price is also an important basis of selection and competition. Our success depends in part on fulfilling available opportunities to meet consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes proactively to more than offset obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products, we may not be successful in their development or these new products may not be commercially successful. In addition, it is possible competitors may either improve more rapidly or effectively or resort to price competition to sustain market share and manufacturing capacity utilization, both of which could adversely affect our sales, margins and profitability. In addition, market demand may decline as a result of consumer preferences trending away from our categories and adversely impact our results.

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

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

*Risks associated with the Proposed Separation.*

The Proposed Separation is complex in nature, subject to various regulatory, tax and Board approvals, and may be affected by unanticipated developments or changes in market conditions. As a result, the Proposed Separation may be delayed or not occur.

We expect to achieve substantial benefits of focus as a result of the Proposed Separation, resulting in significantly enhanced long-term growth and return prospects for each business and offering substantially greater total long-term value to shareholders. However, the Company cannot predict with certainty when these benefits will occur or the extent to which they will be achieved, if at all. Furthermore, there are various uncertainties and risks relating to the process of the Proposed Separation that could have a negative impact on our results, including disruption of our operations and impairment of our relationship with key personnel, customers and vendors.

If the Proposed Separation is successfully completed, the Company will face new and unique risks, including the possibility of reduced financial resources and less diversification of revenue sources, which may adversely impact future results.

While the Company believes that a spin-off distribution of our Home & Security or Golf businesses will qualify as tax-free under Section 355 of the U.S. Internal Revenue Code, this is not certain and both the Company and our shareholders could incur significant U.S. federal income tax liabilities if taxing authorities conclude the distribution is taxable.

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

We continue to consider acquisitions and joint ventures as a means of enhancing shareowner value. Acquisitions and joint ventures involve risks and uncertainties, including: difficulties integrating acquired companies and operating joint ventures, retaining the acquired businesses customers and brands, and achieving the expected financial results and benefits of transactions, such as cost savings, and revenue increases from expanded geographic or product presence; loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, procedures, policies and information systems; and diversion of management s attention from other business concerns. Future acquisitions could cause us to incur additional debt, issue shares and experience dilution in earnings per share and return on capital.

*Downgrades of our credit ratings could adversely affect us.*

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

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

We are exposed to risks associated with interest rate fluctuations and commodity price volatility arising from supply conditions, geopolitical and economic variables, weather, and other unpredictable external factors. We buy commodities, including wood, steel, copper, zinc, titanium, glass, plastic, resins, particleboard, grains and grapes. We also grow agave plants for tequila production. Availability, increases and volatility in the prices of these commodities, as well as products sourced from third parties and energy used in making, distributing and transporting our products, could increase the manufacturing costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers, there is no assurance that we will be able to offset such cost increases in the future. While we may use derivative contracts to limit our exposure to commodity price volatility, the exposures under these contracts could still be material to our results of operations, cash flows, and financial condition.

*Risks associated with our ability to continuously improve organizational productivity and global supply chain efficiency and flexibility could adversely affect our business.*

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

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

We manufacture, source or sell our products in the United States, Europe, Canada, Australia, Mexico, China, Thailand, India, South Korea and other countries. Accordingly, we are subject to risks associated with potential disruption caused by changes in political, economic and social environments, including civil and political unrest, terrorism, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments, trade disputes with the U.S., as well as U.S. laws affecting activities of U.S. companies abroad, including tax laws and enforcement of contract and intellectual property rights. Our success will depend, in part, on our ability to manage our businesses through the impact of these potential changes.

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

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

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

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

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

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

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

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

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

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

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

*Our businesses rely on the performance of wholesale distributors and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels and customers.*

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

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

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

*Future tax law changes and/or interpretation of existing tax laws may materially impact the Company s effective income tax rate and the resolution of unrecognized tax benefits.*

Our businesses are subject to income taxation in the U.S. as well as internationally. It is possible that future income tax legislation may be enacted that could have a material impact on our worldwide income tax provision. We are routinely audited by income tax authorities in many jurisdictions. Although we believe that the recorded tax estimates are reasonable and appropriate, there are significant uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material effect on earnings between the period of initial recognition of tax estimates in the financial statements and the point of ultimate tax audit settlement. In addition, it is possible that future income tax legislation may be enacted that could have a material impact on our worldwide income tax provision.

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

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

*Historical financial statements may not be reflective of our future results of operations, cash flows, and financial condition.*

Although we believe that this report contains material information necessary to make an informed assessment of our assets and liabilities, financial position, profit and losses and prospects, historical financial statements do not represent what our results of operations, cash flows, or financial position will be for any future periods.

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

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

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

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

**Item 1B. Unresolved Staff Comments.**

None.

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**Item 2. Properties.**

The Company leases its principal executive offices in Deerfield, Illinois. The following table indicates the principal properties of the Company and its subsidiaries as of December 31, 2010:

| Segment | Manufacturing Plants | | Distribution Centers and Warehouses | | Other[(a)] | |
|---|---|---|---|---|---|---|
| | Owned | Leased | Owned | Leased | Owned | Leased |
| Spirits | | | | | | |
| U.S. | 7 | | 11 | 1 | | |
| Europe | 11 | | 12 | | | |
| Mexico | 1 | | 2 | 3 | | |
| Asia | 1 | | | 21 | | |
| Canada | 1 | | 2 | | | |
| Home & Security | | | | | | |
| U.S. | 28 | 4 | 1 | 12 | | |
| Europe | | | | 1 | | |
| Mexico | 3 | | | 1 | | |
| Asia | 1 | 2 | | 4 | | |
| Canada | 1 | | | 3 | | |
| Central America | | | | 1 | | |
| Golf | | | | | | |
| U.S. | 3 | 1 | 1 | 2 | 3 | 2 |
| Europe | | | 1 | 1 | | 3 |
| Asia | 3 | 1 | 1 | 6 | | |
| Canada | | | | 1 | | |
| Australia/New Zealand | | | | 2 | | |
| Africa | | | | 1 | | |
| Corporate | | | | | | |
| U.S. | | | | | | 1 |
| Total U.S. | 38 | 5 | 13 | 15 | 3 | 3 |
| Total Non-U.S. | 22 | 3 | 19 | 45 | | 3 |
| TOTAL | 60 | 8 | 32 | 60 | 3 | 6 |

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

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

**Item 3. Legal Proceedings.**

**Tobacco Overview**

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

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

The Indemnitor has complied with the terms of the Indemnification Agreement since 1994, and we are not aware of any inability on the part of the Indemnitor to satisfy its indemnity obligations.

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

**Pending Cases**

As of February 4, 2011, there were five smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants, compared with six cases reported in our Annual Report on Form 10-K for the year ended December 31, 2009. As of February 4, 2011, there were no purported smoking and health class actions or health care recovery actions pending against the Company. For a list of pending cases, see Exhibit 99 to this Annual Report on Form 10-K.

**Terminated Cases**

One tobacco-related case was terminated in 2010. For the terminated case, see Exhibit 99 to this Annual Report on Form 10-K.

**Certain Developments Affecting the Indemnitor**

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On November 6, 2000, the Florida Circuit Court upheld this jury award, and held that the class of plaintiffs eligible to recover damages should be extended to smokers with illnesses diagnosed more than four years before the lawsuit was filed in 1994. On May 21, 2003, a Florida appellate court reversed the jury s verdict and damages award and decertified the class. On October 22, 2003, plaintiffs counsel sought review of this decision in the Florida Supreme Court. On July 6, 2006, the Florida Supreme Court vacated the jury s $145 billion punitive damage award and also decertified the class and reinstated compensatory damages to the two named plaintiffs, and permitted individual members of the former class to file separate lawsuits within one year of issuance of the mandate (which was ultimately issued January 11, 2007). On August 7, 2006, both parties filed motions for rehearing with the Florida Supreme Court. On December 21, 2006, the Florida Supreme Court denied plaintiffs rehearing motion, and granted in part and denied in part defendants rehearing motion. The December 21, 2006 ruling did not amend the July 6, 2006 decision s major holdings, but instead addressed the claims to which the Engle jury s phase one verdict will be applicable in the individual lawsuits that the Florida Supreme Court s decision has permitted. On October 1, 2007, the United States Supreme Court denied defendants motion seeking review by that court. As of January 25, 2011, B&W and/or R.J. Reynolds Tobacco Company had been served in over 7,900 cases (the Engle progeny cases ) brought by individual plaintiffs in state and federal courts in Florida. These cases include claims asserted by over 9,400 individual plaintiffs. The number of cases may increase as the Florida courts continue to sever cases with multiple plaintiffs. In 2009, trials in the Engle progeny cases began. Of the nine Engle progeny cases that were tried in 2009, several resulted in adverse judgments against tobacco companies, including four adverse judgments against the Indemnitor. All of these adverse judgments were appealed by the Indemnitor. Three of these appeals remain pending before Florida appellate courts, and one of them was affirmed by a Florida appellate court on December 14, 2010. Twenty-three Engle progeny cases were tried to verdict in 2010. Fourteen resulted in adverse judgments against tobacco companies, including twelve adverse judgments against the Indemnitor. Eleven of these twelve adverse judgments are currently being appealed by the Indemnitor. All of these appeals remain pending. The twelfth adverse judgment is currently stayed pending resolution of post-trial motions in the trial court. The Company is not a party to any of the Engle progeny cases.

In September 1999, the United States government filed a recoupment lawsuit in Federal Court in Washington, D.C. against the leading tobacco manufacturers (including the Indemnitor and B&W individually and as a successor to ATCO) seeking recovery of costs paid by the Federal government for claimed smoking-related illness. In this action, the U.S. District Court for the District of Columbia dismissed certain counts of the lawsuit, but also ruled that the government may proceed with two counts under the federal RICO statute. On February 4, 2005, the U.S. Circuit Court of Appeals for the District of Columbia held that the government may not, however, seek a disgorgement of defendants profits from the sale of tobacco as a part of its RICO claim. The U.S. Supreme Court denied the government s petition to review this decision on October 17, 2005. The trial was concluded in June, 2005. On August 17, 2006, the Court issued its final judgment and remedial order, which found that the defendants violated federal civil RICO law by defrauding the public with regard to smoking and health issues. The court did not award monetary damages to the government, but did order the defendants to, among other things, remove descriptors such as low tar, light or ultra light from cigarette packages and to publish certain corrective statements regarding smoking and health issues. The defendants and the government appealed this matter. On May 22, 2009, the U.S. Court of Appeals for the District of Columbia unanimously affirmed the district court s RICO liability judgment against several defendants, including the Indemnitor, ordered the dismissal of two defunct U.S. trade associations that were not covered by the district court s injunctive remedies, remanded for further proceeding on certain remedial issues, and remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The government s cross-appeal seeking disgorgement of past profits and the funding of smoking education and cessation programs was denied. On June 28, 2010, the U.S. Supreme Court denied the defendants petition for certiorari review, and denied the government s petition for certiorari review seeking to reinstate the government s claim for disgorgement of past profits. On July 7, 2010, the U.S. Court of Appeals for the District of Columbia issued its remand returning the case to the District Court for further proceedings. The District Court issued an order on December 22, 2010, on consent of the parties, ruling that Brown & Williamson Holding, Inc. (formerly known as Brown & Williamson Tobacco Corporation) is no longer subject to the injunctive remedies in the case. These remedies are still being litigated in the District Court. The Company is not a party to this action.

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On March 21, 2003, a judgment for $7.1 billion in compensatory and $3 billion in punitive damages was entered by an Illinois state court against Philip Morris, Inc. in Price, et al. v. Philip Morris, Inc., a class action alleging that certain advertising for light or low tar cigarettes was deceptive under the Illinois Consumer Fraud Act. On December 15, 2005, the Illinois Supreme Court reversed the judgment and remanded the case to the lower court with instruction to dismiss the case. On November 27, 2006, the U.S. Supreme Court refused to hear plaintiffs appeal and ordered the lower court to dismiss plaintiffs pending motion to vacate. On December 18, 2006, the trial court entered a final judgment in accordance with the Illinois Supreme Court s mandate. On January 17, 2007, the plaintiffs subsequently filed a motion in the lower court seeking to vacate or withhold judgment. On August 22, 2007, the Illinois Supreme Court issued a supervisory order directing the lower courts to dismiss the motion. On August 30, 2007, the trial court dismissed plaintiffs motion. On December 18, 2008, plaintiffs filed a petition requesting the state court to vacate the Price judgment in light of the U.S. Supreme Court s December 15, 2008 decision in Altria Group, Inc. v. Good (in which the Court held that federal law did not preempt the plaintiffs assertion of state-law consumer fraud claims which alleged that defendants advertising and marketing fraudulently conveyed the message that light cigarettes deliver less tar and nicotine to smokers than regular cigarettes.) On February 4, 2009, the trial court dismissed the plaintiffs petition. On March 4, 2009, plaintiffs filed a notice of appeal to the intermediate appellate court. Oral argument was heard in the intermediate appellate court on February 2, 2010. Class actions involving similar allegations as Price (Howard, et al. v. Brown & Williamson Tobacco Corp. and Turner v. R.J. Reynolds Tobacco Co.) are pending against B&W and R.J. Reynolds Tobacco Company, respectively, in the same court. Proceedings in the Howard and Turner cases have been stayed or are otherwise inactive pending resolution of the Price litigation. The Company is not a party to the Price, Howard, Turner or Good litigation.

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

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

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

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

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**Conclusion**

It is not possible to predict the outcome of the pending tobacco-related litigation, and it is possible that some of these actions could be decided unfavorably. Management is unable to make a reasonable 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.

**Callaway Litigation**

*The 2006 Callaway Litigation*

On February 9, 2006, Callaway Golf Company (Callaway) filed a lawsuit seeking unspecified damages against the Company s subsidiary Acushnet Company (Acushnet) in the United States District Court for the District of Delaware (2006 Callaway Litigation). Callaway alleged that Pro V1 golf balls then manufactured by Acushnet infringed four of Callaway s patents. At a December, 2007 trial, the validity of nine claims contained in the four patents was tried to a jury which returned a mixed verdict, finding one claim invalid and eight claims valid. On November 10, 2008, the trial court issued an order enjoining sales of all 2007 Pro V1 golf balls as of January 1, 2009. Acushnet appealed to the United States Court of Appeals for the Federal Circuit.

On August 14, 2009, the Court of Appeals overturned the judgment, vacated the injunction and sent the case back to the District Court. The Court of Appeals also found that the District Court erred in rejecting an Acushnet defense before the trial.

On March 29, 2010, following the new trial, a jury found in favor of Acushnet on all counts. Specifically, the jury concluded that Acushnet was not liable because all of the patents asserted by Callaway were invalid both as obvious and anticipated by earlier patents. Following the trial, Callaway filed a motion asking the court to enter judgment as a matter of law in its favor or, alternatively, to grant a new trial on the validity of the Callaway patents. The court is currently considering this post-trial motion.

*The 2009 Callaway Litigation*

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

*Proceedings at the U.S. Patent and Trademark Office*

In separate proceedings, on February 19, 2006, Acushnet filed requests with the U.S. Patent and Trademark Office (PTO) for reexamination of all four of the patents asserted by Callaway in the 2006

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Callaway Litigation. The PTO issued final office actions finding that all four patents are invalid. Callaway subsequently filed appeals regarding all four of the patents with the Patent Board of Appeals. The Patent Board of Appeals conducted a hearing on January 19, 2011 and their decision is expected later this year. With regard to the patents asserted by Callaway in the 2009 Callaway Litigation, Acushnet also filed requests for reexamination with the PTO. The PTO has accepted the reexaminations and has issued office actions that reject all of the claims of both patents as invalid on multiple grounds.

*Conclusion*

We believe that Acushnet has meritorious defenses to all of the litigation brought by Callaway and each of these matters is being vigorously contested. Given the favorable jury verdict in the first Callaway suit and the favorable developments at the PTO with respect to the validity of patents asserted in both Callaway patent suits, as well as the speculative nature of damages asserted by Callaway in both suits, it is not possible at this time to assess the likelihood of an adverse outcome or determine a reasonable estimate, or range of estimates, of potential damages. If decided unfavorably, however, the litigation could have a material adverse effect on the results of the Company s operations, cash flows or financial conditions.

**Other Litigation**

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

**Item 4. [Removed and Reserved.]**

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**Item 4A. Executive Officers of the Registrant.**

The name, present position 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 |
|---|---|---|
| Bruce A. Carbonari | Chairman of the Board and Chief Executive Officer since October 2008; President and Chief Executive Officer from January 2008 to September 2008; President and Chief Operating Officer from January 2007 to December 2007; Chairman and Chief Executive Officer of Fortune Brands Home & Security LLC August 2005 to December 2006 and President and Chief Executive Officer of Fortune Brands Home & Security LLC from January 2001 to August 2005. | 55 |
| Mark Hausberg | Senior Vice President Finance and Treasurer since January 2000. | 61 |
| Patrick J. Koley | Senior Vice President Strategy and Corporate Development since February 2009; Principal Investment Officer, ConAgra Commercial division of ConAgra Foods, Inc. from June 2008 to February 2009 where he was responsible for strategic planning and corporate development; President, Emerging Business, ConAgra Foods, Inc. from 2007 to 2008; Vice President, Strategic Development ConAgra Foods, Inc. prior thereto. | 46 |
| Craig P. Omtvedt | Senior Vice President and Chief Financial Officer since January 2000. | 61 |
| Mark A. Roche | Senior Vice President, General Counsel and Secretary since January 2000. | 56 |
| Edward A. Wiertel | Vice President and Corporate Controller since April 2007; Partner KPMG LLP from 2002 to March 2007 where he oversaw audit and related financial services provided to clients. | 41 |

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 Composite Common Stock Prices and Common Stock Cash Dividend Payments**

| | *2010* | | | 2009 | | |
|---|---|---|---|---|---|---|
| | *High* | *Low* | *Dividend Per Common Share* | High | Low | Dividend Per Common Share |
| First Quarter | $ 50.08 | $ 39.84 | $ 0.19 | $ 42.97 | $ 17.68 | $ 0.44 |
| Second Quarter | 55.68 | 39.09 | 0.19 | 43.49 | 24.23 | 0.19 |
| Third Quarter | 50.39 | 37.05 | 0.19 | 46.59 | 31.58 | 0.19 |
| Fourth Quarter | 63.51 | 49.02 | 0.19 | 46.77 | 37.74 | 0.19 |
| Total | | | $ 0.76 | | | $ 1.01 |

The Company s 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.

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

On February 4, 2011, there were 17,109 record holders of the Company s common stock, par value $3.125 per share.

**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, 2010:

| Three Months Ended December 31, 2010 | *Total number of shares purchased*[(a)] | Average price paid per share |
|---|---|---|
| October 1 October 31 | | $ |
| November 1 November 30 | | |
| December 1 December 31 | 3,097 | 61.89 |
| Total | 3,097 | $ 61.89 |

(a) The Company purchased all of the 3,097 shares between December 1, 2010 and December 31, 2010 from the Company s employees 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 and the related tax withholding amounts.

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**Stock Performance**

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

*Peer Group Index*

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

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

*Home & Security:* Stanley Black & Decker, Inc., Masco Corporation, and Newell Rubbermaid Inc. and

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

*Calculation of Peer Group Index*

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

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

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

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

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

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**Item 6. Selected Financial Data.**

**Five-year Consolidated Selected Financial Data** Fortune Brands, Inc. and Subsidiaries For the year ended December 31,

| *(In millions, except per share amounts)* | *2010* | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Income Statement Data** | | | | | |
| Net sales | $ 7,141.5 | $ 6,694.7 | $ 7,608.9 | $ 8,563.1 | $ 8,521.0 |
| Depreciation and amortization | 245.2 | 254.7 | 265.5 | 265.0 | 240.5 |
| Operating income | 763.9 | 505.2 | 145.6 | 1,376.3 | 1,447.9 |
| Interest expense | 213.8 | 215.8 | 237.1 | 293.6 | 308.8 |
| Income taxes | 91.6 | 36.3 | 95.6 | 346.3 | 299.3 |
| Income from continuing operations, net of tax | 496.0 | 247.1 | 92.8 | 773.9 | 880.0 |
| Income from discontinued operations, net of tax | | | 152.5 | 13.1 | 18.0 |
| Net income | 496.0 | 247.1 | 245.3 | 787.0 | 898.0 |
| Net income attributable to Fortune Brands | 487.6 | 242.8 | 311.1 | 762.6 | 830.1 |
| Basic earnings per common share | | | | | |
| Continuing operations | $ 3.20 | $ 1.61 | $ 1.04 | $ 4.89 | $ 5.44 |
| Net income | $ 3.20 | $ 1.61 | $ 2.05 | $ 4.98 | $ 5.56 |
| Diluted earnings per common share | | | | | |
| Continuing operations | $ 3.16 | $ 1.60 | $ 1.03 | $ 4.79 | $ 5.31 |
| Net income | $ 3.16 | $ 1.60 | $ 2.02 | $ 4.87 | $ 5.42 |
| Average number of diluted shares outstanding | 154.3 | 151.8 | 153.7 | 156.5 | 153.0 |
| | | | | | |
| **Balance Sheet Data** | | | | | |
| Inventories | $ 2,088.3 | $ 2,016.6 | $ 1,975.4 | $ 2,047.6 | $ 1,937.8 |
| Working capital | 2,236.1 | 2,408.1 | 2,278.0 | 1,687.0 | 1,414.7 |
| Total assets | 12,675.3 | 12,370.6 | 12,091.9 | 13,956.9 | 14,668.3 |
| Short-term debt | 643.5 | 51.3 | 36.6 | 431.0 | 789.3 |
| Long-term debt | 3,637.4 | 4,413.3 | 4,688.6 | 3,942.7 | 5,034.9 |
| Total equity | 5,688.0 | 5,105.7 | 4,699.6 | 5,701.1 | 4,744.8 |
| | | | | | |
| **Cash Flow Data** inflow (outflow) | | | | | |
| Net cash provided by operating activities | $ 770.6 | $ 866.3 | $ 817.6 | $ 965.3 | $ 982.7 |
| Capital expenditures | (223.0) | (157.5) | (176.3) | (267.1) | (266.0) |
| Proceeds from the disposition of assets | 142.4 | 15.9 | 19.2 | 69.3 | 84.6 |
| Dividends to stockholders | (116.2) | (152.2) | (261.2) | (248.6) | (224.0) |
| Dividends paid per common share | 0.76 | 1.01 | 1.72 | 1.62 | 1.50 |

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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)* | *2010* | *% Change vs. Prior Year* | 2009 | % Change vs. Prior Year | 2008 |
| Spirits | $ 2,665.9 | 7.9% | $ 2,469.6 | (0.5)% | $ 2,480.9 |
| Home & Security | 3,234.0 | 7.6 | 3,006.8 | (20.0) | 3,759.1 |
| Golf | 1,241.6 | 1.9 | 1,218.3 | (11.0) | 1,368.9 |
| **NET SALES** | $ 7,141.5 | 6.7% | $ 6,694.7 | (12.0)% | $ 7,608.9 |

| | Operating Income and Net Income | | | | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | | |
| *(In millions)* | *2010* | *% Change vs. Prior Year* | 2009 | % Change vs. Prior Year | 2008 |
| **OPERATING INCOME:** | | | | | |
| Spirits | $ 544.3 | 12.3% | $ 484.7 | (10.9)% | $ 543.7 |
| Home & Security | 222.0 | 155.2 | 87.0 | 118.7 | (465.6) |
| Golf | 88.7 | 254.8 | 25.0 | (80.0) | 125.3 |
| Corporate expenses | (91.1) | 0.4 | (91.5) | (58.3) | (57.8) |
| **OPERATING INCOME** | $ 763.9 | 51.2% | $ 505.2 | 247.0% | $ 145.6 |
| Less: | | | | | |
| Interest expense | 213.8 | (0.9) | 215.8 | (9.0) | 237.1 |
| Other (income) expense, net | (37.5) | | 6.0 | | (279.9) |
| Income taxes | 91.6 | 152.3 | 36.3 | (62.0) | 95.6 |
| **INCOME FROM CONTINUING OPERATIONS** | $ 496.0 | 100.7% | $ 247.1 | 166.3% | $ 92.8 |
| Income from discontinued operations | | | | | 152.5 |
| **NET INCOME** | $ 496.0 | 100.7% | $ 247.1 | 0.7% | $ 245.3 |
| Less: Noncontrolling interests | 8.4 | 95.3 | 4.3 | 106.5 | (65.8) |
| **NET INCOME ATTRIBUTABLE TO FORTUNE BRANDS CONSOLIDATED** | $ 487.6 | 100.8% | $ 242.8 | (22.0)% | $ 311.1 |

**Summary**

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

> profitably building leading consumer brands to drive sales and earnings growth and enhance returns on a long-term basis,

> positioning our brands and businesses to outperform their respective markets by:

developing innovative new products and effective marketing programs,

expanding customer relationships,

extending brands into adjacent categories, and

developing international growth opportunities,

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

> promoting organizational excellence by developing winning cultures and associates,

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

> pursuing investments with the highest return opportunities.

While our first priority is internal growth, we also strive to create shareholder value through add-on acquisitions, dispositions, joint ventures and other strategic alternatives. In addition, we seek to enhance shareholder value through other initiatives, such as using our financial resources to pay dividends and repurchase shares, when deemed appropriate. Our current priority is to pay down debt.

On December 8, 2010, we announced that the Board of Directors approved in principle a separation of the Company s three business segments (Proposed Separation). The broad plan includes: the continuation of Fortune Brands as an independent, publicly-traded company focused solely on the Spirits business; the tax-free spin-off to shareholders of the Home & Security business into an independent publicly-traded company; and exploring the sale or tax-free spin-off of the Golf business. The Company currently expects to complete the transactions by the end of 2011. While over the years the benefits of breadth and balance of our portfolio have facilitated the building of three large, leading and profitable consumer businesses, each business has now reached a point of strength and scale coming out of the recent economic downturn where we believe the benefits of focus are substantially greater. As separate businesses, we believe we will significantly enhance each business s long-term growth and return prospects as well as offer substantially greater total long-term value to shareholders. Focused capital structures and share ownership for each business will create even greater strategic flexibility to pursue profitable organic growth investments as well as to compete for high return acquisitions. In addition, dedicated management teams and boards of directors for each business will enable faster and more effective operational and strategic decision-making. Lastly, as standalone companies concentrated on building brands and outperforming their respective consumer categories, each business will be able to provide targeted equity-based incentive compensation that will be a more effective management tool to attract, motivate and retain key employees. For a description of certain factors that may have had, or may in the future have, a significant impact on our business, financial condition or results of operations, see Item 1A. Risk Factors.

Certain items had a significant impact on our results in 2010, 2009 and 2008. These included the impact of changes in foreign currency exchange rates, acquisition and disposition-related items, restructuring and other charges, and income tax-related items.

In 2010, financial results included:

> The favorable impact of foreign currency changes compared to 2009 of approximately $90 million on net sales, $40 million on operating income and $30 million on net income (approximately $0.20 per diluted share),

> Lower net sales as a result of the sale of the Cobra golf brand and related assets ($52.4 million) and certain non-strategic spirits brands (approximately $16 million),

> Restructuring and other charges of $41.3 million before tax ($19.5 million after tax or $0.13 per diluted share),

> The net loss on the sale of certain non-strategic brands and related assets (Cobra golf brand, local German spirits brands and Cockburn port brand) of $4.7 million before tax ($9.2 million after tax, or $0.05 per diluted share),

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- Costs related to the Proposed Separation of $2.3 million ($1.5 million after tax or $0.01 per share), and
- Income-tax related credits of $83.5 million ($0.54 per diluted share) related to the resolution of routine foreign and U.S. income tax audit examinations.

In 2009, financial results included:

- The unfavorable impact of foreign currency changes compared to 2008 of approximately $135 million on net sales and $30 million on both operating income and net income (approximately $1.85 per diluted share),
- The incremental impact of the acquisitions on net sales ($106 million), including Cruzan rum and sales of third party brands within distribution businesses acquired from Maxxium, our prior international spirits sales and distribution joint venture,
- Restructuring and other charges of $121.2 million before tax ($71.7 million after tax or $0.47 per diluted share),
- Asset impairment charges related to the Spirits business s indefinite-lived tradenames of $92.5 million ($66.8 million after tax or $0.44 per diluted share), and
- A gain related to a dividend distribution from our Maxxium investment of $12.5 million (or $0.08 per diluted share).

In 2008, financial results included:

- Restructuring and other charges of $119.2 million before tax ($73.5 million after tax or $0.48 per diluted share),
- Asset impairment charges related to both the Home & Security and Spirits businesses of $785.5 million ($659.4 million after tax or $4.29 per diluted share),
- The write-down of the Maxxium international spirits distribution joint venture investment of $50.5 million ($51.2 million after tax or $0.33 per diluted share),
- An after-tax gain resulting from the repurchase of the Beam Global minority interest of $81.8 million ($0.53 per diluted share),
- A gain on the termination of the Future Brands U.S. spirits distribution joint venture of $233.7 million ($145.9 million after tax or $0.95 per diluted share),
- An accelerated Future Brand deferred gain of $72.0 million ($44.9 million after tax or $0.29 per diluted share),
- Vin & Sprit Group (V&S) auction process costs of $8.2 million ($5.2 million after tax or $0.03 per diluted share), and

- Tax-related credits of $98.2 million ($0.64 per diluted share).

In April 2010, we sold our Cobra golf product line to PUMA North America, Inc. for $88.9 million. The asset sale included the Cobra golf brand and related inventory, intellectual property and endorsement contracts. The sale resulted in a pre-tax gain of $11.3 million ($10.0 million after tax). In 2009, full year Cobra net sales were approximately $130 million. In August 2010, we sold certain non-strategic German spirits brands and related assets. We recorded a pre-tax loss of $8.6 million ($12.4 million after tax). In December 2010, we sold the Cockburn port brand and inventory. As a result, we recorded a pre-tax loss of $7.4 million ($6.8 million after tax) on the sale. The proceeds from the two spirits transactions totaled $49.2 million.

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

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

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

In 2011, we expect to:

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

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

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

We have also identified certain risks and challenges that may impact our businesses in 2011 including:

> current economic conditions, including the gradual and uneven recovery in consumers discretionary spending and trading down to lower-priced products,

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

> changes in foreign exchange rates.

For a more detailed discussion of these and other risk factors that may impact our business, results of operations, cash flows or financial condition, see Item 1A. Risk Factors.

**RESULTS OF OPERATIONS**

**2010 Compared to 2009**

*Net sales*

Net sales increased $446.8 million, or 7%, to $7.1 billion, primarily due to:

> higher sales in the Home & Security business due to expanding relationships with key customers, new product introductions, and more stable market conditions in the U.S.,

- increased sales in the Spirits business in the U.S. and internationally benefiting from new product introductions, market growth and increased strategic investment, as well as higher excise taxes ($81.7 million),

- increased Titleist and FootJoy brand golf sales across all product lines, and

- the benefit of favorable foreign exchange (approximately $90 million).

Sales were unfavorably impacted by the sale of the Cobra golf product line (approximately $52 million) and certain non-strategic spirits brands (approximately $16 million).

*Cost of products sold*

Cost of products sold increased $137.9 million, or 4%, primarily due to higher sales across all segments and increased raw material and transportation costs (approximately $35 million, predominantly in the Home & Security business), partially offset by lower other charges related to restructuring programs in 2010 compared to 2009 ($24.8 million, primarily in the Home & Security business), and the impact of cost reduction programs, mainly in the Home & Security and Golf segments.

*Excise taxes on spirits*

Excise taxes collected from customers are reflected in net sales, and the equal and corresponding payments to governments are reflected in expenses. Excise taxes are generally levied based on the alcohol content of spirits products and vary significantly by country. Excise taxes on spirits increased $81.7 million, primarily due to the impact of the acquisition and consolidation of former Maxxium joint venture entities in April 2009 on the first quarter of 2010, a change in selling terms with a major customer in Australia, and higher U.S. sales volume.

*Advertising, selling, general and administrative expenses*

Advertising, selling, general and administrative expenses increased $113.6 million, or 6%, primarily due to increased sales and higher levels of advertising and promotion spending in all segments to support long-term growth and new product launches and new business, as well as first quarter costs associated with our Spirits business s new international sales and distribution structures.

*Restructuring charges*

In 2010, we recorded restructuring charges of $26.1 million related to additional organizational streamlining initiatives in the Spirits business ($15.4 million), product line integration and facility consolidations in the Home & Security business ($8.0 million), and facility consolidations in the Golf business ($2.7 million). These charges consisted of $21.7 million for workforce reductions and $4.3 million for fixed asset write-downs and other costs.

In 2009, we recorded restructuring charges of $81.9 million. These charges related to workforce reductions across all segments ($60.2 million), including the announced closure of seven Home & Security manufacturing facilities in the U.S., the closure of a golf shoe manufacturing facility, and the announced closure of a spirits facility in 2010. Fixed asset write-downs totaled $10.3 million. In addition, we recorded $11.4 million for lease contract termination and other costs, as well as reductions in general and administrative costs and charges associated with our Spirits business repositioning.

*Loss on sale of brands and related assets, net*

In April 2010, we sold the Cobra golf product line to PUMA North America, Inc. The asset sale included the Cobra golf brand and related inventory, intellectual property and endorsement contracts. The sale resulted in a pre-tax gain of $11.3 million. In August 2010, we sold certain non-strategic German spirits brands and related assets. We recorded a pre-tax loss of $8.6 million in connection with the sale. In December 2010, we sold the Cockburn port brand and U.S., U.K. and Portugal inventory. We recorded a pre-tax loss of $7.4 million in connection with the transaction.

*Operating income*

Operating income increased $258.7 million, or 51%, to $763.9 million, primarily due to higher net sales in all segments, lower restructuring and other charges ($77.6 million), the favorable impact of foreign currency rates (approximately $40 million), and reduced cost structures in the Home & Security and Golf businesses. Operating income was unfavorably impacted by higher advertising and promotion spending, higher raw material and transportation costs, and increased operating costs associated with our new international sales and distribution structures in the Spirits business.

*Interest expense*

Interest expense decreased $2.0 million, or 1%, due to lower average borrowings, partially offset by higher average interest rates.

*Other (income) expense, net*

Other (income) expense, net, was income of $37.5 million in 2010 compared to expense of $6.0 million in 2009, primarily due to income recognized upon receipt of tax indemnification payments of $37.1 million from Pernod Ricard in connection with Spanish income tax audit settlements. Other (income) expense, net, also includes non-operating income and expense, such as interest income, transaction gains/losses related to foreign currency-denominated transactions, and losses on the early extinguishment of debt.

*Income taxes*

Our effective income tax rates for the twelve months ended December 31, 2010 and 2009 were 15.6% and 12.8%, respectively. The effective tax rate in 2010 was favorably impacted due to the final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of indemnification income received in connection with the settlement of the Spanish income tax audit. The effective tax rate in 2010 was unfavorably impacted by a higher proportion of domestic income in 2010, which is taxed at a higher rate relative to foreign income. Our effective income tax rate in 2009 was favorably impacted by tax benefits from restructuring and other charges relative to the lower-taxed income before these charges.

During 2010, the Spanish tax authorities issued three assessments of tax and/or interest to our Spanish spirits companies, which include the assets acquired from Pernod Ricard in July 2005. The assessments related to the 1988-1990 and 2004-2006 periods, the majority of which related to pre-acquisition tax years. The Spanish tax authorities issued net assessments of approximately $42.2 million ($27.5 million for tax and $14.7 million for related interest), which were paid in July, October and December 2010. Pursuant to the acquisition agreement, we negotiated and received $37.1 million in tax indemnification payments from Pernod Ricard related to the above assessments and recorded these payments in other (income) expense, net. The net difference represents items for which the Company will receive future income tax benefits.

Also during 2010, the Company settled its 2004-2005 IRS audit appeal and the IRS concluded its routine examinations of the Company s 2006-2007 tax years.

As a result of the resolution of the U.S. and Spanish audit examinations, we recorded approximately $46.5 million of previously unrecognized tax benefits (net of current and deferred taxes) in our provision for income taxes.

*Noncontrolling interests*

Noncontrolling interest expense was $8.4 million and $4.3 million for the twelve months ended December 31, 2010 and 2009, respectively. The increase is due to higher earnings in consolidated subsidiaries for which there is a noncontrolling interest.

*Income attributable to Fortune Brands common stockholders*

Income from continuing operations was $487.6 million, or $3.20 per basic share and $3.16 per diluted share, for the twelve months ended December 31, 2010. These results compared to $242.8 million, or $1.61 per basic share and $1.60 per diluted share, for the twelve months ended December 31, 2009. The $244.8 million increase in income was primarily due to higher operating income, as well as the favorable resolution of U.S. and international tax audits ($83.5 million in total).

**2009 Compared to 2008**

*Net Sales*

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

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

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

> unfavorable impact of changes in foreign exchange rates (approximately $135 million).

Sales benefited from:

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

> newly introduced products and line extensions in all segments,

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

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

*Cost of products sold*

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

*Excise taxes on spirits*

Excise taxes on spirits were up 69 basis points as a percentage of sales compared to the prior year due to higher Spirits segment sales as a percentage of total Company sales.

*Advertising, selling, general and administrative expenses*

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

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*Amortization of intangible assets*

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

*Asset impairment charges*

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

In 2008, we recorded pre-tax asset impairment charges in the Home & Security and Spirits businesses of $785.5 million ($659.4 million after tax). The Home & Security charges of $758.3 million included write-downs of goodwill, tradenames and other long-lived assets. For additional information, refer to the Results of Operations for the Home & Security segment. In addition, we recorded a $27.2 million write-down of certain non-U.S. regional Spirits tradenames.

*Restructuring charges*

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

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

*Operating income*

Operating income increased $359.6 million, or 247%, primarily due to lower asset impairment charges ($693.0 million), and to a lesser degree from reduced cost structures and lower advertising promotion spending. Operating income was unfavorably impacted by lower sales and related adverse operating leverage, higher costs in our Spirits business associated with our enhanced sales and distribution structures, unfavorable foreign currency (approximately $30 million), and an unfavorable comparison to a lower level of incentive compensation in 2008.

*Interest expense*

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