FORTUNE BRANDS INC
Form 10-Q
August 05, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-9076

FORTUNE BRANDS, INC.

(Exact name of Registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

The number of shares outstanding of the registrant s common stock, par value $3.125 per share, at July 31, 2011 was 154,468,863.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions)

(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 287.4	$ 864.7
Accounts receivable, net	887.1	805.2
Inventories		
Maturing spirits	1,321.5	1,253.7
Other raw materials, supplies and work in process	303.7	290.7
Finished products	348.6	312.5
	1,973.8	1,856.9
Other current assets	626.0	387.4
Current assets of discontinued operations	571.7	428.8
Total current assets	4,346.0	4,343.0
Property, plant and equipment	2,717.2	2,619.7
Less: accumulated depreciation	1,464.2	1,401.3
Property, plant and equipment, net	1,253.0	1,218.4
Goodwill resulting from business acquisitions	3,677.7	3,591.8
Other intangible assets resulting from business acquisitions, net	3,109.3	3,025.7
Other assets	253.6	229.5
Non-current assets of discontinued operations	259.0	265.6
Total assets	$ 12,898.6	$ 12,674.0

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except per share amounts)

(Unaudited)

	June 30, 2011	December 31, 2010
Liabilities and equity		
Current liabilities		
Notes payable to banks	$ 30.8	$ 23.8
Bank lines of credit	150.0	
Current portion of long-term debt	403.4	590.6
Accounts payable	426.2	442.1
Other current liabilities	721.4	806.2
Current liabilities of discontinued operations	273.0	244.2
Total current liabilities	2,004.8	2,106.9
Long-term debt	3,290.1	3,637.4
Deferred income taxes	710.7	659.5
Accrued pension and postretirement benefits	228.2	229.2
Other non-current liabilities	269.8	245.6
Non-current liabilities of discontinued operations	116.8	107.4
Total liabilities	6,620.4	6,986.0
Equity		
Fortune Brands stockholders equity		
$2.67 Convertible Preferred stock redeemable at Company s option	4.8	4.9
Common stock, par value $3.125 per share, 234.9 shares issued	734.0	734.0
Paid-in capital	843.3	820.2
Accumulated other comprehensive loss	(0.7)	(172.0)
Retained earnings	7,849.3	7,499.3
Treasury stock, at cost	(3,172.1)	(3,215.3)
Total Fortune Brands stockholders equity	6,258.6	5,671.1
Noncontrolling interests	19.6	16.9
Total equity	6,278.2	5,688.0
Total liabilities and equity	$ 12,898.6	$ 12,674.0

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the Six Months and Three Months Ended June 30, 2011 and 2010

(in millions, except per share amounts)

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$ 2,979.7	$ 2,781.1	$ 1,592.4	$ 1,509.6
Cost of products sold	1,585.2	1,446.6	841.3	781.9
Excise taxes on spirits	281.4	254.4	132.5	128.0
Advertising, selling, general and administrative expenses	770.5	741.5	412.8	383.9
Amortization of intangible assets	15.5	16.6	7.9	8.2
Restructuring charges	2.6	0.5	0.1	(0.6)
Business separation costs	19.8		10.3	
Operating income	304.7	321.5	187.5	208.2
Interest expense	85.8	101.8	42.1	49.9
Other expense (income), net	4.0	(19.9)	3.0	(18.8)
Income from continuing operations before income taxes	214.9	239.6	142.4	177.1
Income taxes	58.8	14.7	39.2	(3.6)
Income from continuing operations, net of tax	156.1	224.9	103.2	180.7
Income from discontinued operations, net of tax	257.1	78.9	226.8	48.7
Net income	413.2	303.8	330.0	229.4
Less: Noncontrolling interests	3.4	4.2	1.4	2.0
Net income attributable to Fortune Brands	$ 409.8	$ 299.6	$ 328.6	$ 227.4
Amounts attributable to common shareholders				
Income from continuing operations, net of tax	$ 155.5	$ 224.4	$ 102.9	$ 180.5
Income from discontinued operations, net of tax	254.3	75.2	225.7	46.9
Net income attributable to Fortune Brands	$ 409.8	$ 299.6	$ 328.6	$ 227.4
Earnings per common share				
Basic				
Continuing operations	$ 1.01	$ 1.47	$ 0.67	$ 1.18
Discontinued operations	1.65	0.50	1.46	0.31
Net income	$ 2.66	$ 1.97	$ 2.13	$ 1.49
Diluted				
Continuing operations	$ 0.99	$ 1.46	$ 0.65	$ 1.17
Discontinued operations	1.62	0.49	1.44	0.31
Net income	$ 2.61	$ 1.95	$ 2.09	$ 1.48

Dividends paid per common share	$ 0.38	$ 0.38	$ 0.19	$ 0.19
Average number of common shares outstanding				
Basic	154.0	152.0	154.3	152.5
Diluted	156.9	153.6	157.3	154.1

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2011 and 2010

(in millions)

(Unaudited)

	2011	2010
Operating activities		
Net income	$ 413.2	$ 303.8
Non-cash pre-tax expense (income):		
Restructuring charges	0.5	(0.3)
Depreciation	100.4	102.4
Amortization	16.9	18.1
Stock-based compensation	23.6	29.1
Deferred income taxes	(189.3)	37.2
Tax benefit from income tax audit settlements		(42.3)
Gain on the sale of brands and related assets		(15.1)
Changes in assets and liabilities:		
Increase in accounts receivable	(213.4)	(121.6)
Increase in inventories	(30.9)	(64.4)
(Decrease) increase in accounts payable	(6.0)	8.7
Decrease in other assets	6.5	50.0
Decrease in accrued expenses and other liabilities	(133.9)	(148.1)
Increase in accrued taxes	18.9	43.7
Net cash provided by operating activities	6.5	201.2
Investing activities		
Capital expenditures	(98.0)	(68.9)
Proceeds from the disposition of assets	5.2	91.1
Acquisitions, net of cash acquired	(39.6)	
Return of investment in affiliates	12.2	
Repayment of loans to affiliates		7.6
Net cash (used in) provided by investing activities	(120.2)	29.8
Financing activities		
Increase in short-term debt, net	144.9	7.5
Repayment of long-term debt	(590.6)	(166.5)
Dividends to stockholders	(58.7)	(58.0)
Proceeds received from exercise of stock options	38.7	8.8
Tax benefit on exercise of stock options	2.0	1.7
Dividends paid to noncontrolling interest	(0.7)	(1.8)
Other financing, net		(6.9)
Net cash used in financing activities	(464.4)	(215.2)
Effect of foreign exchange rate changes on cash	0.8	(16.7)
Net decrease in cash and cash equivalents	$ (577.3)	$ (0.9)

Cash and cash equivalents at beginning of period	$ 864.7	$ 417.2
Cash and cash equivalents at end of period	$ 287.4	$ 416.3

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

For the Six Months Ended June 30, 2011 and 2010

(in millions, except per share amounts)

(Unaudited)

	Fortune Brands, Inc. Stockholders Equity							
	Convertible Preferred Stock	Common Stock	Paid-in Capital	AOCI [1]	Retained Earnings	Treasury Stock, At Cost	Non-controlling Interest	Total
Balance at December 31, 2009	$ 5.2	$ 734.0	$ 755.6	$ (211.8)	$ 7,135.4	$ (3,326.0)	$ 13.3	$ 5,105.7
Comprehensive income								
Net income					299.6		4.2	303.8
Translation adjustments				(192.6)				(192.6)
Derivative instruments				11.9				11.9
Pension and postretirement benefit adjustments				14.6				14.6
Total comprehensive income				(166.1)	299.6		4.2	137.7
Dividends paid to noncontrolling interests							(1.8)	(1.8)
Dividends ($0.38 per Common share and $1.335 per Preferred share)					(58.0)			(58.0)
Shares issued from treasury stock for benefit plans			6.4			61.4		67.8
Stock-based compensation			27.0		(3.4)	14.2		37.8
Tax benefit on exercise of stock options			1.8					1.8
Conversion of preferred stock (<0.1 shares)	(0.2)		(1.3)			1.5		
Balance at June 30, 2010	$ 5.0	$ 734.0	$ 789.5	$ (377.9)	$ 7,373.6	$ (3,248.9)	$ 15.7	$ 5,291.0
Balance at December 31, 2010	$ 4.9	$ 734.0	$ 820.2	$ (172.0)	$ 7,499.3	$ (3,215.3)	$ 16.9	$ 5,688.0
Comprehensive income								
Net income					409.8		3.4	413.2
Translation adjustments				162.6				162.6
Derivative instruments				0.7				0.7
Pension and postretirement benefit adjustments				8.0				8.0
Total comprehensive income				171.3	409.8		3.4	584.5
Dividends paid to noncontrolling interests							(0.7)	(0.7)
Dividends ($0.38 per Common share and $1.335 per Preferred share)					(58.7)			(58.7)
Stock-based compensation			20.6		(1.1)	42.5		62.0
Tax benefit on exercise of stock options			3.1					3.1
Conversion of preferred stock (<0.1 shares)	(0.1)		(0.6)			0.7		
Balance at June 30, 2011	$ 4.8	$ 734.0	$ 843.3	$ (0.7)	$ 7,849.3	$ (3,172.1)	$ 19.6	$ 6,278.2

(1) Accumulated other comprehensive loss

See notes to condensed consolidated financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Background, Basis of Presentation and Principles of Consolidation

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

The condensed consolidated balance sheet as of June 30, 2011, the related condensed consolidated statements of income for the six-month and three-month periods ended June 30, 2011 and 2010 and the related condensed consolidated statements of cash flows and equity for the six-month periods ended June 30, 2011 and 2010 are unaudited. In the opinion of management, all adjustments necessary for a fair statement of the financial statements have been included. Interim results may not be indicative of results for a full year.

On December 8, 2010, we announced that the Board of Directors approved in principle a separation of the Company s three business segments (the Proposed Separation). The current 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 the sale of the Golf business. On May 20, 2011, we announced a definitive agreement for the sale of the Acushnet Company golf business to a group led by Fila Korea Ltd. and Mirae Asset Private Equity for $1.225 billion. We closed the sale of the Acushnet Company golf business on July 29, 2011. In addition to final authorization of the Board of Directors, the spin-off of the Home & Security business is subject to the receipt of a number of customary regulatory approvals and rulings, the execution of intercompany agreements and finalization of other related matters. We expect to complete the spin-off early in the fourth quarter of 2011, but there can be no assurance that the spin-off will be completed as anticipated or at all.

In accordance with Accounting Standards Codification (ASC) 205, the results of operations related to the 2011 sale of the Acushnet Company golf business were separately stated in the accompanying consolidated statements of income for the six and three months ended June 30, 2011 and 2010 as discontinued operations. The assets and liabilities of this discontinued operation were reclassified in the accompanying condensed consolidated balance sheet as of December 31, 2010. The cash flows from discontinued operations for the six months ended June 30, 2010 were not separately classified on the accompanying consolidated statements of cash flows. Information on business segments does not include discontinued operations.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in our annual consolidated financial statements and notes. The year-end condensed consolidated balance sheet was derived from our audited financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP). The condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q should be read in conjunction with our audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Recently Issued Accounting Standards

Revenue Arrangements with Multiple Deliverables

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

Fair Value Measurement

In May 2011, the FASB issued new guidance on fair value measurement and disclosure requirements (ASU 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs). The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendment is effective for interim and annual periods beginning after December 15, 2011 (calendar year 2012 for Fortune Brands). We do not believe that adoption of this standard will have a material impact on our financial statements and disclosures.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, Statement of Comprehensive Income. This standard requires entities to present items of net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements. The new requirements are effective for public entities as of the beginning of a fiscal year that begins after December 15, 2011 (calendar year 2012 for Fortune Brands). Full retrospective application is required. Early adoption is permitted. We believe that adoption of this standard will not have a material impact on our financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Discontinued Operations

On May 20, 2011, we announced a definitive agreement for the sale of the Acushnet Company golf business to a group led by Fila Korea Ltd. and Mirae Asset Private Equity for $1.225 billion. We closed the sale of the Acushnet Company golf business on July 29, 2011 and expect to record a gain. The purchase price and gain are subject to certain post-closing adjustments.

The following table summarizes the results of the Acushnet Company golf business for the six and three months ended June 30, 2011 and 2010.

(in millions)	Six Months Ended June 30,		Three Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$ 768.9	$ 742.9	$ 398.8	$ 389.3
Income from discontinued operations before income taxes	$ 86.6	$ 102.4	$ 46.5	$ 61.7
Income taxes	(170.5)	23.5	(180.3)	13.0
Net income from discontinued operations, net of taxes	$ 257.1	$ 78.9	$ 226.8	$ 48.7
Net income from discontinued operations attributable to Fortune Brands, net of taxes	$ 254.3	$ 75.2	$ 225.7	$ 46.9

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).

During the second quarter of 2011, the Acushnet Company golf business recorded a $215.3 million reduction of a valuation allowance that had previously been established with respect to a capital loss carryforward. The valuation allowance was reduced because we expect to utilize the capital loss carryforward to offset capital gains associated with the sale. Also, as a result of the intended sale of the Acushnet Company golf business, during the second quarter of 2011, we provided a deferred tax expense of $24.7 million related to the expected repatriation of undistributed foreign earnings and expected gains associated with the sale of foreign subsidiary stock that are deemed to be taxable U.S. dividends.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Goodwill and Other Identifiable Intangible Assets

We had goodwill of $3,677.7 million as of June 30, 2011. The change in the net carrying amount of goodwill by segment was as follows:

(in millions)	Spirits	Home & Security	Total goodwill
Balance at December 31, 2010			
Goodwill	$ 2,137.5	$ 1,905.6	$ 4,043.1
Accumulated impairment losses		(451.3)	(451.3)
Total goodwill, net	$ 2,137.5	$ 1,454.3	$ 3,591.8
Year-to-date activity			
Translation adjustments	49.9	1.1	51.0
Acquisition-related adjustments	34.3	0.6	34.9
Balance at June 30, 2011			
Goodwill	$ 2,221.7	$ 1,907.3	$ 4,129.0
Accumulated impairment losses		(451.3)	(451.3)
Total goodwill, net	$ 2,221.7	$ 1,456.0	$ 3,677.7

We also had indefinite-lived intangible assets, principally tradenames, of $2,644.2 million and $2,563.4 million as of June 30, 2011 and December 31, 2010, respectively. The increase of $80.8 million was due to changes in foreign currency translation adjustments.

Amortizable identifiable intangible assets, principally tradenames, are subject to amortization over their estimated useful life, 5 to 30 years, based on the assessment of a number of factors that may impact useful life. These factors include historical and tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, financial results and other relevant factors. The gross carrying value and accumulated amortization of amortizable intangible assets were $861.1 million and $396.0 million, respectively, as of June 30, 2011, compared to $840.0 million and $377.7 million, respectively, as of December 31, 2010. The gross carrying value increase of $21.1 million was due to changes in foreign currency translation adjustments ($13.0 million) and the acquisition of the Skinnygirl ready-to-drink cocktail business ($8.1 million).

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Goodwill and Other Identifiable Intangible Assets (Continued)

The gross carrying value and accumulated amortization by class of intangible assets as of June 30, 2011 and December 31, 2010 were as follows:

	As of June 30, 2011			As of December 31, 2010		
(in millions)	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived tradenames	$ 2,697.8	$ (53.6)[1]	$ 2,644.2	$ 2,617.0	$ (53.6)[1]	$ 2,563.4
Amortizable intangible assets						
Tradenames	529.6	(192.0)	337.6	510.6	(182.2)	328.4
Customer and contractual relationships	276.5	(162.8)	113.7	275.5	(155.6)	119.9
Patents/proprietary technology	40.5	(34.1)	6.4	40.5	(33.1)	7.4
Licenses and other	14.5	(7.1)	7.4	13.4	(6.8)	6.6
Total	861.1	(396.0)	465.1	840.0	(377.7)	462.3
Total identifiable intangibles	$ 3,558.9	$ (449.6)	$ 3,109.3	$ 3,457.0	$ (431.3)	$ 3,025.7

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

Indefinite-lived tradenames as of June 30, 2011 were comprised of $1,976.1 million in the Spirits segment and $668.1 million in the Home & Security segment.

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

5. Acquisition

In March 2011, we acquired the Skinnygirl ready-to-drink cocktail business. The acquisition included inventory and identifiable intangible assets. In addition to goodwill, we recorded contingent consideration which is based on the achievement of certain sales targets. In future periods, the Company may be required to record contingent consideration in an amount not in excess of approximately $25 million. Any change in the Company s estimated liabilities for contingent consideration will impact operating income in future periods. The acquisition was not material for purposes of supplemental disclosure (per ASC 805).

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Business Separation Costs

Business separation costs are directly related to implementing the Proposed Separation. We recorded $19.8 million and $10.3 million of business separation costs in the six and three months ended June 30, 2011, respectively. These costs predominantly consisted of financial, legal and other separation-related advisory fees.

7. Income Taxes

Our effective income tax rates for the six months ended June 30, 2011 and 2010 were 27.4% and 6.1%, respectively. Our effective income tax rates for the three months ended June 30, 2011 and 2010 were 27.5% and (2.0)%, respectively. The effective income tax rates in 2011 were unfavorably impacted by a higher proportion of domestic income, which is taxed at a higher rate relative to foreign income. The effective income tax rates in 2010 were favorably impacted by a $42.4 million tax benefit related to final settlement of U.S. and Spanish federal income tax audits. The effective income tax rates in 2010 were also favorably impacted by the tax-free treatment of indemnification income received in connection with the settlement of the Spanish income tax audit.

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

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

As a result of the conclusion of the above-mentioned audit examinations, during the second quarter of 2010, we recorded approximately $42.4 million of previously unrecognized tax benefits (net of current and deferred taxes) in net income.

It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease in the range of $5 million to $20 million, primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes (Continued)

We do not provide for deferred income taxes on undistributed earnings of foreign subsidiaries that we expect to permanently reinvest. As a result of the Proposed Separation and related transactions, it is possible that the above tax assertion regarding permanent reinvestment of foreign earnings could change.

8. Information on Business Segments

Net sales and operating income for the six months ended June 30, 2011 and 2010 by segment were as follows:

	Six Months Ended June 30,		
(in millions)	**2011**	**2010**	**% Change vs. Prior Year**
Net Sales			
Spirits	$ 1,375.8	$ 1,204.6	14.2%
Home & Security	1,603.9	1,576.5	1.7
Net sales	$ 2,979.7	$ 2,781.1	7.1%
Operating Income			
Spirits	$ 291.1	$ 261.1	11.5%
Home & Security	76.1	105.0	(27.5)
Corporate expenses	(62.5)	(44.6)	(40.1)
Operating income	$ 304.7	$ 321.5	(5.2)%

Net sales and operating income for the three months ended June 30, 2011 and 2010 by segment were as follows:

	Three Months Ended June 30,		
(in millions)	**2011**	**2010**	**% Change vs. Prior Year**
Net Sales			
Spirits	$ 702.7	$ 631.5	11.3%
Home & Security	889.7	878.1	1.3
Net sales	$ 1,592.4	$ 1,509.6	5.5%
Operating Income			
Spirits	$ 146.7	$ 146.0	0.5%
Home & Security	70.4	82.6	(14.8)
Corporate expenses	(29.6)	(20.4)	(45.1)
Operating income	$ 187.5	$ 208.2	(9.9)%

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FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Earnings Per Share

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

(in millions, except for per share amounts)	Six Months Ended June 30,		Three Months Ended June 30,	
	2011	2010	2011	2010
Income from continuing operations	$ 155.5	$ 224.4	$ 102.9	$ 180.5
Income from discontinued operations	254.3	75.2	225.7	46.9
Net income attributable to Fortune Brands	$ 409.8	$ 299.6	$ 328.6	$ 227.4
Less: Preferred stock dividends	0.2	0.2	0.1	0.1
Income attributable to Fortune Brands common stockholders basic	409.6	299.4	328.5	227.3
Convertible Preferred stock dividends	0.2	0.2	0.1	0.1
Income attributable to Fortune Brands common stockholders diluted	$ 409.8	$ 299.6	$ 328.6	$ 227.4
Weighted average number of common shares outstanding basic	154.0	152.0	154.3	152.5
Conversion of Convertible Preferred stock	1.1	1.1	1.0	1.1
Exercise of share-based awards	1.8	0.5	2.0	0.5
Weighted average number of common shares outstanding diluted	156.9	153.6	157.3	154.1
Antidilutive stock-based awards excluded from weighted average number of common shares outstanding for diluted EPS	8.5	16.4	8.8	17.1
Earnings per common share				
Basic				
Continuing operations	$ 1.01	$ 1.47	$ 0.67	$ 1.18
Discontinued operations	1.65	0.50	1.46	0.31
Net earnings per basic share	$ 2.66	$ 1.97	$ 2.13	$ 1.49
Diluted				
Continuing operations	$ 0.99	$ 1.46	$ 0.65	$ 1.17
Discontinued operations	1.62	0.49	1.44	0.31
Net earnings per diluted share	$ 2.61	$ 1.95	$ 2.09	$ 1.48

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Pension and Other Retiree Benefits

The components of net periodic benefit cost for pension and postretirement benefits for continuing operations for the six months ended June 30, 2011 and 2010 were as follows:

	Six Months Ended June 30,			
	Pension Benefits		Postretirement Benefits	
(in millions)	2011	2010	2011	2010
Service cost	$ 10.3	$ 10.1	$ 0.5	$ 0.4
Interest cost	27.5	26.7	2.6	2.7
Expected return on plan assets	(36.1)	(34.7)		
Amortization of prior service cost (credit)	0.9	1.1	(1.9)	(1.9)
Amortization of net losses (gains)	11.4	9.6	0.1	(0.2)
Termination benefit		0.2		
Net periodic benefit cost	$ 14.0	$ 13.0	$ 1.3	$ 1.0

The components of net periodic benefit cost for pension and postretirement benefits for continuing operations for the three months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30,			
	Pension Benefits		Postretirement Benefits	
(in millions)	2011	2010	2011	2010
Service cost	$ 4.8	$ 4.8	$ 0.2	$ 0.1
Interest cost	13.7	13.3	1.3	1.3
Expected return on plan assets	(18.0)	(17.3)		
Amortization of prior service cost (credit)	0.4	0.6	(0.9)	(1.1)
Amortization of net losses (gains)	5.7	4.7	0.1	(0.2)
Termination benefit		0.1		
Net periodic benefit cost	$ 6.6	$ 6.2	$ 0.7	$ 0.1

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Debt and Financing Arrangements

In January 2011, we repaid maturing notes of $590.6 million using cash on hand. In addition, in the first quarter of 2011, we entered into uncommitted lines of credit totaling $200 million for seasonal working capital and other needs of which $50 million has expired. There was $150 million outstanding on these lines of credit at June 30, 2011. The interest rates under these lines of credit are variable based on LIBOR at the time of borrowing. Borrowings under these uncommitted lines of credit have maturities of one month or less.

On February 3, 2010, we executed a $750 million, 3-year committed revolving credit agreement to be used for general corporate purposes. As of June 30, 2011, there were no amounts outstanding under this facility. The interest rates under this credit facility are variable based on LIBOR at the time of the borrowing and the Company s long-term credit rating. The credit facility includes a minimum Consolidated Interest Coverage Ratio requirement of 3.0 to 1.0 through 2011 and 3.5 to 1.0 in 2012. The Consolidated Interest Coverage Ratio is defined as the ratio of adjusted EBITDA to Consolidated Interest Expense. Adjusted EBITDA is defined as consolidated net income before interest expense, income taxes, and depreciation and amortization of intangible assets, as well as noncash restructuring and nonrecurring charges, losses from asset impairments, and gains or losses resulting from the sale of assets not in the ordinary course of business. Consolidated Interest Expense is as disclosed in our financial statements. The credit facility also includes a maximum debt to total capital ratio of 0.55 to 1.0. Total capital is defined as debt plus equity and deferred taxes less any future impairment charges. None of our other debt instruments include financial ratio covenants. There were no events of default as of June 30, 2011.

On July 28, 2011, we announced an offer to purchase (Tender) an aggregate purchase price of $1 billion of our outstanding long-term debt. The Tender will be financed from cash received from the sale of our Golf business which closed on July 29, 2011. We expect the Tender to be completed in August 2011. We maintain the option to increase the size of the Tender or extend the Tender prior to expiration.

12. Financial Instruments

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

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

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Financial Instruments (Continued)

As of June 30, 2011, we had fixed to floating interest rate swaps with an aggregate notional principal amount of $900 million. These swap agreements hedge changes in the fair value of a portion of our existing fixed rate debt that result from changes in a benchmark interest rate (U.S. LIBOR). The swap agreements were designated and classified as fair value hedges in accordance with the authoritative guidance on derivatives and hedging (ASC 815). The unrealized gain on these interest rate swap contracts and the offsetting unrealized loss on the related debt were $37.8 million as of June 30, 2011.

We enter into foreign exchange contracts primarily to hedge forecasted sales and purchases denominated in select foreign currencies, thereby limiting currency risk that would otherwise result from changes in exchange rates. The periods of the foreign exchange contracts correspond to the periods of the forecasted transactions, which generally do not exceed 12 to 15 months subsequent to the latest balance sheet date. We also enter into foreign exchange contracts to hedge our risk to changes in the fair value of recognized foreign currency denominated assets and liabilities and to hedge a portion of our net investments in certain foreign subsidiaries. The effective portions of cash flow hedges are reported in other comprehensive income and are recognized in the statement of income when the hedged item affects earnings. The ineffective portion of all hedges is recognized in current period earnings. In addition, changes in fair value of all economic hedge transactions are immediately recognized in current period earnings. Our primary foreign currency hedge contracts pertain to the U.S. dollar, the Canadian dollar, the Euro and the Australian dollar. The gross U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at June 30, 2011 was $815.3 million.

We enter into commodity swaps to manage the price risk associated with forecasted purchases of materials used in our operations. We account for these commodity derivatives as economic hedges or cash flow hedges. Changes in the fair value of economic hedges are recorded directly into current period earnings. There were no material commodity swap contracts outstanding as of June 30, 2011.

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

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Financial Instruments (Continued)

The fair values of foreign exchange derivative instruments on the condensed consolidated balance sheet as of June 30, 2011 and December 31, 2010 were:

(in millions)		Fair Value	
	Balance Sheet Location	June 30, 2011	December 31, 2010
Assets			
Foreign exchange contracts	Other current assets	$ 4.8	$ 4.6
Commodity contracts	Other current assets	0.6	1.0
Interest rate contracts	Other current assets	3.4	
	Other assets	34.4	36.7
	Total assets	$ 43.2	$ 42.3
Liabilities			
Foreign exchange contracts	Other current liabilities	$ 14.2	$ 12.9
Commodity contracts	Other current liabilities	0.1	
	Total liabilities	$ 14.3	$ 12.9

The effects of derivative financial instruments on the statement of income and other comprehensive income (OCI) for the six months ended June 30, 2011 and 2010 were:

(in millions)	Gain (Loss)				
	Recognized in OCI (Effective Portion)		Recognized in Income Location of Gain (Loss)		
Type of hedge	2011	2010	Recognized in Income	2011	2010
Cash flow	$ (4.8)	$ 0.3	Net sales	$ (7.5)	$ (9.2)
			Cost of products sold	0.9	0.5
			Interest expense		(0.4)
Fair value			Interest expense	10.1	10.0
			Other expense, net	(16.4)	(2.7)
Net investment		0.4			
Total	$ (4.8)	$ 0.7		$ (12.9)	$ (1.8)

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Financial Instruments (Continued)

The effects of derivative financial instruments on the statement of income and other comprehensive income (OCI) for the three months ended June 30, 2011 and 2010 were:

(in millions)	Gain (Loss) Recognized in OCI (Effective Portion)		Gain (Loss) Recognized in Income Location of Gain (Loss)		
Type of hedge	**2011**	**2010**	**Recognized in Income**	**2011**	**2010**
Cash flow	$ (3.7)	$ (1.7)	Net sales	$ (3.4)	$ (2.3)
			Cost of products sold	0.4	0.1
			Interest expense		(0.4)
Fair value			Interest expense	5.1	5.0
			Other expense, net	(5.0)	(1.0)
Total	$ (3.7)	$ (1.7)		$ (2.9)	$ 1.4

In the six and three months ended June 30, 2011 and 2010, the ineffective portion of cash flow hedges recognized in other expense (income), net, was insignificant. The Company has designated certain foreign currency denominated nonderivative financial instruments as hedges of the currency exposure of net investments in foreign operations in accordance with authoritative guidance on foreign currency translation (ASC 830) and derivatives and hedging (ASC 815). The changes in net unrealized (losses) gains for nonderivative financial instruments in accumulated other comprehensive loss in the six months ended June 30, 2011 and 2010 were $(35.0) million and $64.2 million, respectively. The changes in net unrealized (losses) gains for nonderivative financial instruments in accumulated other comprehensive loss in the three months ended June 30, 2011 and 2010 were $(10.3) million and $40.2 million, respectively.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010 were as follows:

	Fair Value	
(in millions)	**June 30, 2011**	**December 31, 2010**
Assets		
Derivative financial instruments (level 2)	$ 43.2	$ 42.3
Deferred compensation program assets (level 1)	5.4	6.2
Total assets	$ 48.6	$ 48.5
Liabilities		
Derivative financial instruments (level 2)	$ 14.3	$ 12.9

Derivatives are either foreign exchange contracts recorded at fair value to hedge currency fluctuations for transactions denominated in foreign currency, interest rate swaps or commodity swaps of forecasted commodity purchases. Assets for deferred compensation programs are for programs where select employees can defer compensation until death, disability or other termination of employment.

Assets and liabilities measured at fair value using unobservable inputs require a significant degree of judgment and estimates regarding assumptions, including, but not limited to, projected future levels of income based on management s plans, as well as business trends, prospects, and market and economic conditions. As a result, changes to the fair values could have a material impact on results of operations and liquidity when realized.

Authoritative guidance on fair value measurement (ASC 820) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in Level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs, due to little or no market activity for the asset or liability, such as internally-developed valuation models.

The fair value of the Company s long-term debt (including current portion) was determined from quoted market prices, where available, and from investment bankers using current interest rates considering credit ratings and the remaining terms to maturity. The fair value of long-term debt at June 30, 2011 was approximately $3,886.9 million, compared with the aggregate carrying value of $3,693.5 million. The fair value of long-term debt at December 31, 2010 was approximately $4,323.6 million compared with the aggregate carrying value of $4,228.0 million.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Guarantees and Commitments

We guarantee 50% of certain credit facilities of Maxxium España S.L., in the amount of 9.0 million (approximately $13.1 million), Denview Ltd., in the amount of 9.0 million (approximately $13.1 million), and Maxxium Cyprus Ltd., in the amount of 4.0 million (approximately $5.8 million), reflecting our ownership in the joint ventures with The Edrington Group (TEG). The liability related to these guarantees is not material. Beam Global Spirits & Wine, Inc. (BGSW) and TEG also have an uncommitted multi-currency Shareholder Loan Facility for BGSW/TEG joint ventures, of which our share is 50%, or 15 million (approximately $21.8 million).

We also guarantee a lease for ACCO World Corporation, the office products business we divested in a spin-off in 2005. The liability related to this guarantee was not material. We will continue to guarantee payment of certain real estate leases, with lease payments totaling approximately $12.9 million, through April 2013.

15. Restructuring and Other Charges

Pre-tax restructuring and other charges for the six and three months ended June 30, 2011 and 2010 are shown below.

(in millions)	Six Months Ended June 30, 2011			
		Other Charges[1]		
	Restructuring Charges	Cost of Products Sold	ASG&A [2]	Total Charges
Spirits	$ 1.9	$ 6.0	$ (0.5)	$ 7.4
Home & Security	0.7	0.3		1.0
	$ 2.6	$ 6.3	$ (0.5)	$ 8.4

(in millions)	Six Months Ended June 30, 2010			
		Other Charges [1]		
	Restructuring Charges	Cost of Products Sold	ASG&A [2]	Total Charges
Spirits	$ (0.2)	$ 1.6	$ 3.3	$ 4.7
Home & Security	0.7	1.2	(0.4)	1.5
	$ 0.5	$ 2.8	$ 2.9	$ 6.2

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Restructuring and Other Charges (Continued)

(in millions)	Three Months Ended June 30, 2011			
		Other Charges[1]		
	Restructuring Charges	Cost of Products Sold	ASG&A [2]	Total Charges
Spirits	$ (0.2)	$ 1.4	$	$ 1.2
Home & Security	0.3	0.2		0.5
	$ 0.1	$ 1.6	$	$ 1.7

(in millions)	Three Months Ended June 30, 2010			
		Other Charges [1]		
	Restructuring Charges	Cost of Products Sold	ASG&A [2]	Total Charges
Spirits	$ (0.9)	$ 0.9	$ 1.0	$ 1.0
Home & Security	0.3	0.3	(0.4)	0.2
	$ (0.6)	$ 1.2	$ 0.6	$ 1.2

[1] Other Charges represent charges directly related to restructuring initiatives that cannot be reported as restructuring under U.S. GAAP. Such costs may include losses on disposal of inventories, trade receivables allowances from exiting product lines and accelerated depreciation resulting from the closure of facilities.

[2] Advertising, selling, general and administrative expenses.

In the six and three months ended June 30, 2011, we recorded restructuring and other charges of $8.4 million and $1.7 million, respectively, related to distribution and supply-chain initiatives, primarily in the Spirits business. For the six and three months ended June 30, 2010, restructuring and other charges of $6.2 million and $1.2 million, respectively, related to previously announced projects in the Spirits and Home & Security businesses.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Restructuring and Other Charges (Continued)

Reconciliation of Restructuring Liability

(in millions)	Balance at December 31, 2010	2011 Provision	Cash Expenditures	Non-Cash Changes	Balance at June 30, 2011
Workforce reductions	$ 19.2	$ 0.1	$ (7.3)	$ (1.1)	$ 10.9
Asset write-downs		0.5	0.2	(0.7)	
Contract termination costs	(0.8)	1.6	(4.0)	3.4	0.2
Other	0.7	0.4	(0.7)	(0.4)	
	$ 19.1	$ 2.6	$ (11.8)	$ 1.2	$ 11.1

(in millions)	Balance at December 31, 2009	2010 Provision	Cash Expenditures	Non-Cash Changes	Balance at June 30, 2010
Workforce reductions	$ 25.3	$ (0.7)	$ (16.0)	$ (0.2)	$ 8.4
Asset write-downs		(0.3)	0.6	(0.3)	
Contract termination costs	9.6	(0.2)	(0.2)	(1.3)	7.9
Other	1.3	1.7	(1.3)	(0.3)	1.4
	$ 36.2	$ 0.5	$ (16.9)	$ (2.1)	$ 17.7

16. Total Other Comprehensive Income

Total comprehensive income for the three months ended June 30, 2011 and 2010 was as follows:

(in millions)	Three Months Ended June 30, 2011	2010
Net income attributable to Fortune Brands	$ 328.6	$ 227.4
Translation adjustments	39.3	(176.0)
Derivative instruments	2.0	1.8
Pension and postretirement benefit adjustments	4.2	12.1
Comprehensive income attributable to Fortune Brands	374.1	65.3
Comprehensive income attributable to noncontrolling interests	1.4	2.0
Total comprehensive income	$ 375.5	$ 67.3

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Pending Litigation
Tobacco Litigation and Indemnification

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.

The Company is a defendant in a number of actions based upon allegations that human ailments have resulted from tobacco use. It is not possible to predict the outcome of the pending litigation, and, as with any litigation, it is possible that some of these actions could be decided unfavorably against us. We are unable to make an estimate of the amount or range of loss that could result from an unfavorable outcome of the pending litigation. However, we believe 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. We believe that the pending actions will not have a material adverse effect upon our results of operations, cash flows or financial condition because we believe we have meritorious defenses and the Company is indemnified under the Indemnification Agreement.

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. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon its consolidated results of operations, cash flow, or financial condition, and where appropriate, these actions are being vigorously contested.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

18. Environmental

We are subject to laws and regulations relating to the protection of the environment. It is not possible to quantify with certainty the potential impact of actions relating to environmental matters, particularly remediation and other compliance efforts that our subsidiaries may undertake in the future due to uncertainties about the status of laws, regulations, technology and information related to individual sites. We are involved in numerous remediation actions to clean up hazardous wastes as required by federal and state laws. Based on our evaluation of the cleanup cost estimates and the compliance programs, we do not believe there is a reasonable possibility that a material loss exceeding the amounts already recognized may have been incurred. Liabilities for remediation costs at each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties.

Item 2. **FORTUNE BRANDS, INC. AND SUBSIDIARIES**

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the notes thereto, which are included in this report. This discussion contains or incorporates by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not historical facts, but rather are based on expectations, estimates, assumptions and projections about our industry, business and future financial results, based on information available at the time of the statement or, with respect to any document incorporated by reference, available at the time that such document was prepared. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the section entitled Risk Factors under Part I, Item 1A of our Annual Report on Form 10-K and the section entitled Forward-Looking Statements in this Quarterly Report on Form 10-Q. We undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events or changes to future results over time or otherwise, except as required by law.

OVERVIEW

Fortune Brands, Inc. (together with its consolidated subsidiaries, Fortune Brands, we, our, us or the Company) is a holding company with subsidiaries that make and sell leading consumer branded products worldwide in the distilled spirits and home and security products markets. 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, and

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

While our first priority is internal growth, we also strive to create shareholder value through add-on acquisitions, dispositions and joint ventures. In addition, we enhance shareholder value through other initiatives, such as using our financial resources to pay dividends and repurchase shares, when deemed appropriate. In 2011, we plan to continue to focus on paying down debt.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

On December 8, 2010, we announced that our Board of Directors approved in principle a separation of the Company s three business segments (the Proposed Separation). The current plan, which is subject to various regulatory, tax and Board approvals, 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 the sale of the Golf business. While the benefits of breadth and balance of our portfolio supported the building of three leading and profitable consumer businesses, we believe that each business has emerged from the economic downturn with the strength and scale to complete effectively on its own and drive even greater value as a focused business. We believe that separating our businesses will significantly enhance each business s long-term growth and return prospects and offer substantially greater total long-term value to stockholders. We believe that 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 stand-alone 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.

On May 20, 2011, we announced a definitive agreement for the sale of the Acushnet Company golf business to a group led by Fila Korea Ltd. and Mirae Asset Private Equity for $1.225 billion. We closed on the sale of the Acushnet Company golf business on July 29, 2011. In addition to final authorization of the Board of Directors, the spin-off of the Home & Security business is subject to the receipt of a number of customary regulatory approvals and rulings, the execution of intercompany agreements and finalization of other related matters. We expect to complete the spin-off early in the fourth quarter of 2011, but there can be no assurance that the spin-off will be completed as anticipated or at all.

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 Forward-Looking Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

Six Months Ended June 30, 2011 Compared To Six Months Ended June 30, 2010

	Net Sales		
(in millions)	2011	2010	% Change vs. Prior Year
Spirits	$ 1,375.8	$ 1,204.6	14.2%
Home & Security	1,603.9	1,576.5	1.7
Net sales	$ 2,979.7	$ 2,781.1	7.1%

	Operating Income		
	2011	2010	% Change vs. Prior Year
Spirits	$ 291.1	$ 261.1	11.5%
Home & Security	76.1	105.0	(27.5)
Corporate expenses	(62.5)	(44.6)	(40.1)
Operating income	$ 304.7	$ 321.5	(5.2)%

Net sales

Net sales increased $198.6 million, or 7%, primarily due to higher sales volume in both the Spirits and Home & Security segments. In addition, net sales benefited in the first quarter of 2011 from transitioning to a new Spirits distribution arrangement in Australia (approximately $45 million), favorable foreign exchange (approximately $60 million), and higher excise taxes ($27.0 million).

Cost of products sold

Cost of products sold increased $138.6 million, or 10%, primarily due to higher sales across both segments and increased raw material costs (approximately $30 million), partially offset by the benefit of productivity initiatives.

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 by $27.0 million primarily due to the impact of a change in selling terms with a major customer in Australia in the first quarter of 2011.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses increased $29.0 million, or 4%, primarily due to higher sales, planned increases in advertising and promotion spending to support new business and new product introductions and drive long-term growth, and higher transportation costs.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Amortization of intangible assets

Amortization of intangible assets was $1.1 million lower due to lack of amortization on a fully amortized customer relationship intangible asset in the Home & Security segment ($0.8 million) and changes in foreign currency rates ($0.3 million).

Restructuring charges

In the six months ended June 30, 2011, we recorded restructuring charges of $2.6 million, primarily related to distribution and supply-chain initiatives in the Spirits business. Restructuring charges of $0.5 million in the six months ended June 30, 2010 related to previously announced projects in both the Spirits and Home & Security segments.

Business separation costs

We recorded $19.8 million of business separation costs in the six months ended June 30, 2011 related to financial, legal and other separation-related advisory fees.

For the full year 2011, business separation costs are expected to be approximately $120 million to $130 million. Approximately $90 million to $100 million of these costs are expected to be cash costs. Business separation costs are directly related to implementing the Proposed Separation of the Company s three business segments and include (i) financial, legal, and other separation related advisory fees, (ii) employee termination related costs, and (iii) share-based compensation expense resulting from the conversion of existing vested Fortune Brands share-based awards as a result of the spin-off to shareholders of the Home & Security business.

Operating income

Operating income decreased $16.8 million, or 5%, to $304.7 million. The decrease was primarily due to lower operating income in the Home & Security segment which was unfavorably impacted by higher raw material and transportation costs and $19.8 million of business separation costs. Operating income benefited from increased operating income in the Spirits business primarily due to higher net sales.

Interest expense

Interest expense decreased $16.0 million, or 16%, primarily due to lower average borrowings, as well as lower average interest rates.

Other expense (income), net

Other expense (income), net, was expense of $4.0 million compared to income of $19.9 million in the same period of 2010. The $23.9 million decrease was primarily due to the 2010 tax indemnification income of $25.6 million from Pernod Ricard S.A. in connection with a 2004-2006 Spanish income tax audit settlement. Other expense (income), net, also includes non-operating income and expense, such as interest income and transaction gains/losses related to foreign currency-denominated transactions.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Income taxes

Our effective income tax rates for the six months ended June 30, 2011 and 2010 were 27.4% and 6.1%, respectively. The effective tax rate in 2011 was unfavorably impacted by a higher proportion of domestic income, which is taxed at a higher rate relative to foreign income. The effective tax rate in 2010 was favorably impacted by a $42.4 million tax benefit related to final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of indemnification income received in connection with the settlement of the Spanish income tax audit.

Income from continuing operations, net of tax

Income from continuing operations was $156.1 million in the six months ended June 30, 2011 compared to $224.9 million in the six months ended June 30, 2010. The $68.8 million decrease was primarily due to lower operating income in the Home & Security segment, the impact of the 2010 tax indemnification income of $25.6 million in other expense (income), net, and the impact of the 2010 tax benefit of $42.4 million related to final settlement of U.S. and Spanish federal income tax audits. These increases were partially offset by higher operating income in the Spirits business and lower interest expense.

Income from discontinued operations, net of tax

Income from discontinued operations, net of tax, increased $178.2 million to $257.1 million in the six months ended June 30, 2011 compared to $78.9 million in the six months ended June 30, 2010. During the second quarter of 2011, the Acushnet Company golf business recorded a $215.3 million reduction of a valuation allowance that had previously been established with respect to a capital loss carryforward. The valuation allowance was reduced because we expect to utilize the capital loss carryforward to offset capital gain associated with the sale. Also, during the second quarter of 2011, we provided a deferred tax expense of $24.7 million related to the expected repatriation of undistributed foreign earnings and expected gains associated with the sale of foreign subsidiary stock that are deemed to be taxable U.S. dividends.

Noncontrolling interests

Noncontrolling interest expense was $3.4 million in the six months ended June 30, 2011 compared to $4.2 million in the same period of the prior year.

Net income attributable to Fortune Brands

Net income was $409.8 million, or $2.66 per basic share and $2.61 per diluted share, for the six months ended June 30, 2011. These results compared to $299.6 million, or $1.97 per basic share and $1.95 per diluted share, for the six months ended June 30, 2010.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Results of Operations By Segment

Spirits

Net sales increased $171.2 million, or 14%, to $1,375.8 million. The increase was due to the first quarter 2011 benefit of transitioning to a new distribution arrangement in Australia (approximately $45 million), higher first quarter 2011 excise taxes (approximately $22.5 million) primarily due to the impact of a change in selling terms with a major customer in Australia, and favorable foreign exchange (approximately $45 million). In addition, net sales were higher on increased sales volume in the U.S. and certain international markets, new product introductions including the growth of Skinnygirl cocktails, as well as favorable product mix. These increases were partially offset by the unfavorable impact of divesting certain non-strategic brands (approximately $20 million).

Operating income increased $30.0 million, or 11%, to $291.1 million, primarily due to higher sales, favorable mix and favorable foreign exchange (approximately $10 million). Operating income was unfavorably impacted by substantially higher advertising and promotional expense, costs associated with acquisitions and the introduction of new products, and approximately $7 million of increased raw material costs.

The long-term demographic trends are favorable for the continued growth of western premium spirits. We believe the continued focus on the best growth and return opportunities, as well as our increased investment in innovation, advertising, and more effective routes to market, position us well for long-term growth. Factors that could adversely affect future results in our Spirits segment include competitive pricing and other activities, future customs, excise and other tax increases, increases in commodity and energy prices, potential reduction of government financial incentives related to rum production, reductions in customer inventory levels, continued consolidation in the distributor and retail tiers, increased industry regulation, and potential impairment charges.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Results of Operations By Segment (Continued)

Home & Security

Net sales increased $27.4 million, or 2%, to $1,603.9 million. The increase was primarily due to expanding relationships with key customers, new product introductions and approximately $15 million of favorable foreign currency. These increases were partially offset by the impact of expiring governmental tax incentives in the U.S. and Canada, and the 2010 impact of customers increasing their inventories in certain product categories.

Operating income decreased $28.9 million, or 28%, to $76.1 million, primarily due to higher raw material costs (approximately $25 million), mainly for brass, resins, steel, and wood, increased promotional spending, and higher transportation costs. In addition, operating income decreased due to planned strategic spending to support growth initiatives and new product introductions. Operating income benefited from higher sales and productivity initiatives.

We believe that the U.S. home products market recovery will continue to be gradual and uneven. We expect near term results will continue to be challenging as consumers remain cautious. The recovery of the U.S. home products market will depend on the broader economy and employment, home prices and credit availability, and consumer confidence. In addition, we expect costs will be higher for raw materials and transportation, as well as strategic investments to support the growth and rollouts of new business. We are striving to offset as much of these cost increases as we can with productivity initiatives and price increases. Over the long term, we believe the market will benefit from favorable population and immigration trends that will drive demand for new housing units and that aging housing stock will continue to need to be remodeled or repaired.

Corporate

Corporate expenses of $62.5 million, which include salaries, benefits and expenses related to corporate office employees, increased $17.9 million, or 40%, predominantly due to business separation costs of $19.8 million. In addition, in connection with the Proposed Separation, we may incur expenses associated with the modification of share-based compensation arrangements and we expect to incur losses from the early retirement of certain debt.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Three Months Ended June 30, 2011 Compared To Three Months Ended June 30, 2010

	Net Sales		
(in millions)	**2011**	**2010**	**% Change vs. Prior Year**
Spirits	$ 702.7	$ 631.5	11.3%
Home & Security	889.7	878.1	1.3
Net sales	$ 1,592.4	$ 1,509.6	5.5%

	Operating Income		
	2011	**2010**	**% Change vs. Prior Year**
Spirits	$ 146.7	$ 146.0	0.5%
Home & Security	70.4	82.6	(14.8)
Corporate expenses	(29.6)	(20.4)	(45.1)
Operating income	$ 187.5	$ 208.2	(9.9)%

Net sales

Net sales increased $82.8 million, or 5%, primarily due to higher sales volume in the Spirits segment. In addition, net sales benefited from favorable foreign exchange (approximately $35 million) and higher excise taxes ($4.5 million).

Cost of products sold

Cost of products sold increased $59.4 million, or 8%, primarily due to higher sales and increased raw material costs (approximately $20 million primarily in the Home & Security segment), partially offset by the benefit of productivity initiatives.

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 by $4.5 million, primarily due to higher U.S. spirits sales.

Advertising, selling, general and administrative expenses

Advertising, selling, general and administrative expenses increased $28.9 million, or 8%, primarily due to higher sales and planned increases in advertising and promotion spending to support new business and new product introductions and drive long-term growth, and higher transportation costs.

Amortization of intangible assets

Amortization of intangible assets was $0.3 million lower primarily due to lack of amortization on a fully amortized customer relationship intangible asset in the Home & Security segment.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Restructuring charges

For the three months ended June 30, 2011, we recorded restructuring charges of $0.1 million. In the three months ended June 30, 2010, we recorded net restructuring accrual reversals of $0.6 million that were no longer required, primarily related to the Spirits segment.

Business separation costs

We recorded $10.3 million of business separation costs in the three months ended June 30, 2011 predominantly consisting of financial, legal and other separation-related advisory fees.

Operating income

Operating income decreased $20.7 million, or 10%, to $187.5 million. The decrease was primarily due to lower operating income in the Home & Security segment which was unfavorably impacted by higher raw material costs, as well as business separation costs of $10.3 million.

Interest expense

Interest expense decreased $7.8 million, or 16%, primarily due to lower average borrowings, as well as lower average interest rates.

Other expense (income), net

Other expense (income), net, was expense of $3.0 million compared to income of $18.8 million in the same period of 2010. The $21.8 million decrease was primarily due to the 2010 tax indemnification income of $25.6 million from Pernod Ricard S.A. in connection with a 2004-2006 Spanish income tax audit settlement. Other expense (income), net, also includes non-operating income and expense, such as interest income and transaction gains/losses related to foreign currency-denominated transactions.

Income taxes

Our effective income tax rates for the three months ended June 30, 2011 and 2010 were 27.5% and (2.0)%, respectively. The effective tax rate in 2011 was unfavorably impacted by a higher proportion of domestic income, which is taxed at a higher rate relative to foreign income. The effective tax rate in 2010 was favorably impacted by a $42.4 million tax benefit related to final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of the indemnification proceeds received in connection with the settlement of the Spanish income tax audit.

Income from continuing operations, net of tax

Income from continuing operations was $103.2 million in the three months ended June 30, 2011 compared to $180.7 million in the three months ended June 30, 2010. The $77.5 million decrease in income was primarily due to lower operating income in the Home & Security segment, the impact of the 2010 tax indemnification income of $25.6 million in other expense (income), net, and the impact of the 2010 tax benefit of $42.4 million related to final settlement of U.S. and Spanish federal income tax audits. These increases were partially offset by lower interest expense.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Income from discontinued operations, net of tax

Income from discontinued operations, net of tax, was $226.8 million in the three months ended June 30, 2011 compared to $48.7 million in the same period of 2010. During the second quarter of 2011, the Acushnet Company golf business recorded a $215.3 million reduction of a valuation allowance that had previously been established with respect to a capital loss carryforward. The valuation allowance was reduced because we expect to utilize the capital loss carryforward to offset capital gain associated with the sale. Also, during the second quarter of 2011, we provided a deferred tax expense of $24.7 million related to the expected repatriation of undistributed foreign earnings and expected gains associated with the sale of foreign subsidiary stock that are deemed to be taxable U.S. dividends.

Noncontrolling interests

Noncontrolling interest expense was $1.4 million in the three months ended June 30, 2011 compared to $2.0 million in the same period of the prior year.

Net income attributable to Fortune Brands

Net income was $328.6 million, or $2.13 per basic share and $2.09 per diluted share, in the three months ended June 30, 2011. These results compared to $227.4 million, or $1.49 per basic share and $1.48 per diluted share, in the three months ended June 30, 2010.

Results of Operations By Segment

Spirits

Net sales increased $71.2 million, or 11%, to $702.7 million. Net sales increased on higher sales volume in the U.S. and certain international markets, new product introductions and the acquisition of Skinnygirl cocktails, as well as favorable foreign exchange (approximately $25 million), favorable product mix and $4.5 million of higher excise taxes. These increases were partially offset by the unfavorable impact of divesting certain non-strategic brands (approximately $10 million).

Operating income increased $0.7 million, to $146.7 million. The benefit of higher sales, favorable mix and favorable foreign exchange (approximately $5 million) were offset by higher advertising and promotional expense, costs associated with acquisitions and the introduction of new products, and an approximately $4 million increase in raw material costs.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS (Continued)

Results of Operations By Segment (Continued)

Home & Security

Net sales increased $11.6 million, or 1%, to $889.7 million. The increase was primarily due to expanding relationships with key customers, new product introductions and approximately $10 million of favorable foreign currency. These increases were partially offset by the impact of expiring governmental tax incentives in the U.S. and Canada, as well as the adverse impact of customers increasing their inventories in certain product categories in 2010.

Operating income decreased $12.2 million, or 15%, to $70.4 million, primarily due to higher raw material costs (approximately $15 million), mainly for brass, steel, resins and wood, as well as higher transportation costs. In addition, operating income decreased due to planned strategic spending to support growth initiatives, promotional spending, and new product introductions. Operating income benefited from productivity initiatives.

Corporate

Corporate expenses of $29.6 million, which include salaries, benefits and expenses related to corporate office employees, increased $9.2 million, or 45%, predominantly due to business separation costs of $10.3 million.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES

We believe that our internally generated funds, together with access to global credit markets and availability under our existing revolving credit agreement, are adequate to meet our long-term and short-term liquidity and capital needs. Our primary liquidity needs are to support working capital requirements, fund capital expenditures, service indebtedness and pay dividends, as well as finance acquisitions and share repurchases, when deemed appropriate. After funding internal growth, our priority is paying down debt. Our principal sources of liquidity are cash on hand, cash flows from operating activities and availability under our credit agreements. Our operating income is generated by our subsidiaries. There are no restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Fortune Brands. We periodically review our portfolio of brands and evaluate strategic options to increase shareholder value. However, we cannot predict whether or when we may enter into acquisition, disposition, joint venture or other strategic transactions, or what impact any such transaction could have on our results of operations, cash flows or financial condition, whether as a result of the issuance of debt or equity securities, or otherwise. In addition, we cannot predict the impact that the Proposed Separation may have on our future liquidity or capitalization. Our cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section of this Quarterly Report on Form 10-Q titled Forward-Looking Statements.

Liquidity and Capitalization

Total debt decreased $377.5 million during the six-month period ended June 30, 2011 to $3.9 billion. The ratio of total debt to total capital decreased to 38.2% at June 30, 2011 from 42.8% at December 31, 2010, primarily due to the first quarter 2011 repayment of $590.6 million of maturing notes using cash on hand, partly offset by the cash provided by revolving credit arrangements and new bank lines of credit ($150 million in total) and changes in foreign exchange rates.

On February 3, 2010, we executed a $750 million, 3-year committed revolving credit agreement to be used for general corporate purposes. As of June 30, 2011, there were no amounts outstanding under this facility. The interest rates under this credit facility are variable based on LIBOR at the time of the borrowing and the Company s long-term credit rating. The credit facility includes a minimum Consolidated Interest Coverage Ratio requirement of 3.0 to 1.0 through 2011 and 3.5 to 1.0 in 2012. The Consolidated Interest Coverage Ratio is defined as the ratio of adjusted EBITDA to Consolidated Interest Expense. Adjusted EBITDA is defined as consolidated net income before interest expense, income taxes, and depreciation and amortization of intangible assets, as well as noncash restructuring and nonrecurring charges, losses from asset impairments, and gains or losses resulting from the sale of assets not in the ordinary course of business. Consolidated Interest Expense is as disclosed in our financial statements. The credit facility also includes a maximum debt to total capital ratio of 0.55 to 1.0. Total capital is defined as debt plus equity and deferred taxes less any impairment charges. As of June 30, 2011, we were in compliance with these ratios by a wide margin. We believe the possibility of violating any of these financial covenants is remote. There were no events of default as of June 30, 2011.

On July 28, 2011, we announced an offer to purchase (Tender) an aggregate purchase price of $1 billion of our outstanding long-term debt. The Tender will be financed from cash received from the sale of our Golf business which closed on July 29, 2011. We expect the Tender to be completed in August 2011. We maintain the option to increase the size of the Tender or extend the Tender prior to expiration. Based on current market prices, we expect to record a pre-tax loss on the early retirement of debt of approximately $100 million to $130 million in connection with the Tender. The actual amount of the loss is dependent on the total principal amount and specific debt maturities repurchased.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Liquidity and Capitalization (Continued)

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

In the first quarter of 2011, the Company entered into uncommitted lines of credit totaling $200 million for seasonal working capital and other needs of which $50 million has expired. There was $150 million outstanding on these lines of credit at June 30, 2011. The interest rates under these lines of credit are variable based on LIBOR at the time of borrowing. Borrowings under these uncommitted lines of credit have maturities of one month or less.

We have an investment grade credit rating from three credit rating agencies. A downgrade of our credit ratings to non-investment grade or a renewed global economic decline or credit crisis may impact our access to long-term capital markets, increase interest rates on some of our corporate debt, or weaken operating cash flow and liquidity, potentially adversely impacting our ability to pay dividends, fund acquisitions and repurchase shares in the future.

As of June 30, 2011, we had total cash and cash equivalents of $287.4 million, a majority of which was held in foreign currencies at non-U.S. subsidiaries. We manage our global cash requirements considering (i) available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The permanent repatriation of non-U.S. cash balances from certain subsidiaries could have adverse tax consequences as we may be required to pay and record income tax expense on those funds to the extent they were previously considered permanently reinvested.

Cash Flows

Below is a summary of cash flows for the six months ended June 30, 2011 and 2010.

	Six Months Ended June 30,	
(in millions)	**2011**	**2010**
Net cash provided by operating activities	$ 6.5	$ 201.2
Net cash (used in) provided by investing activities	(120.2)	29.8
Net cash used in financing activities	(464.4)	(215.2)
Effect of foreign exchange rate changes on cash	0.8	(16.7)
Net decrease in cash and cash equivalents	$ (577.3)	$ (0.9)

Management believes that free cash flow provides investors with useful supplemental information about our ability to fund internal growth, make acquisitions, repay debt, pay dividends and repurchase common stock. Free cash flow, as shown below, is cash from operating activities less net capital expenditures (capital expenditures less proceeds from the sale of assets, including property, plant and equipment). Free cash flow is not a measure derived in accordance with U.S. generally accepted accounting principles (GAAP) and may not be consistent with similar measures presented by other companies.

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FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Cash Flows (Continued)

(in millions)	Six Months Ended June 30, 2011	2010
Net cash provided by operating activities	$ 6.5	$ 201.2
Capital expenditures	(98.0)	(68.9)
Proceeds from the disposition of assets	5.2	91.1
Free cash flow	$ (86.3)	$ 223.4

Net cash provided by operating activities was $6.5 million for the six months ended June 30, 2011 compared to $201.2 million for the same six-month period last year. The decrease in cash provided of $194.7 million was principally due to increased accounts receivable at June 30, 2011 due to higher second quarter 2011 sales in the Spirits business compared to 2010, higher incentive compensation and customer program payments in 2011, and the timing of tax payments.

Net cash used in investing activities for the six months ended June 30, 2011 was $120.2 million, compared with cash provided by investing activities of $29.8 million in the same six-month period last year. This $150.0 million change was primarily due to the acquisition of the Skinnygirl cocktail business, the absence of the 2010 disposition of the Cobra golf product line ($88.9 million) and higher capital spending ($29.1 million).

Net cash used in financing activities for the six months ended June 30, 2011 was $464.4 million, compared with $215.2 million used in the same six-month period last year. This $249.2 million increase was primarily due to the repayment of long-term debt ($590.6 million), partially offset by cash provided by revolving credit arrangements and new bank lines of credit ($150 million in total) and the proceeds received from the exercise of stock options ($29.9 million), compared to 2010 repayment of debt of $166.5 million.

Dividends

A summary of 2011 dividend activity for the Company s common stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.19 per share	January 25, 2011	February 9, 2011	March 1, 2011
$0.19 per share	April 26, 2011	May 11, 2011	June 1, 2011
$0.19 per share	July 26, 2011	August 10, 2011	September 1, 2011

A summary of 2011 dividend activity for the Company s $2.67 Convertible Preferred stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.6675 per share	January 25, 2011	February 9, 2011	March 10, 2010
$0.6675 per share	April 26, 2011	May 11, 2011	June 10, 2011
$0.6675 per share	July 26, 2011	August 10, 2011	September 10, 2011

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FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Customer Credit Risk

We routinely grant unsecured credit to customers in the normal course of business. Accounts receivable were $887.1 million as of June 30, 2011 and are recorded at their stated amount less allowances for discounts, doubtful accounts and returns. Allowances for doubtful accounts include provisions for certain customers where a risk of default has been specifically identified as well as provisions determined on a general formula basis when it is determined that some default is probable and estimable but cannot yet be associated with specific customers. The assessment of likelihood of customer default is based on a variety of factors, including the length of time the receivables are past due, the historical collection experience and existing economic conditions. In accordance with our policy, our allowance for discounts, doubtful accounts and returns was $54.7 million as of both June 30, 2011 and 2010. The conditions in the global economy and credit markets may reduce our customers ability to access sufficient liquidity and capital to fund their operations and make our estimation of customer defaults inherently uncertain. While we believe current allowances for doubtful accounts are adequate, it is possible that continued weak economic conditions may cause significantly higher levels of customer defaults and bad debt expense in future periods.

Counterparty Risk

The counterparties to our derivative contracts are major financial institutions. Although our theoretical risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring losses is unlikely and that the losses, if any, would be immaterial to our results of operations, cash flows and financial condition. The fair value of our derivative assets at June 30, 2011 was $43.2 million. The estimated fair value of our derivative contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Pension Plans

We sponsor defined benefit pension plans that are funded by a portfolio of investments maintained within benefit plan trusts. We have met all of our U.S. minimum funding requirements for 2011. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by the Pension Protection Act of 2006.

Guarantees and Commitments

We guarantee 50% of certain credit facilities of Maxxium España S.L., in the amount of 9.0 million (approximately $13.1 million), Denview Ltd. in the amount of 9.0 million (approximately $13.1 million), and Maxxium Cyprus Ltd., in the amount of 4.0 million (approximately $5.8 million), reflecting our ownership in the joint ventures with The Edrington Group (TEG). The liability related to these guarantees is not material. Beam Global Spirits & Wine, Inc. (BGSW) and TEG also have an uncommitted multi-currency Shareholder Loan Facility for BGSW/TEG joint ventures, of which our share is 50%, or 15 million (approximately $21.8 million).

We also guarantee a lease for ACCO World Corporation, the office products business we divested in a spin-off in 2005. The liability related to this guarantee was not material. We will continue to guarantee payment of certain real estate leases, with lease payments totaling approximately $12.9 million, through April 2013.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue Arrangements with Multiple Deliverables

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

Fair Value Measurement

In May 2011, the FASB issued new guidance on fair value measurement and disclosure requirements (ASU 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs). The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendment is effective for interim and annual periods beginning after December 15, 2011 (calendar year 2012 for Fortune Brands). We do not believe that adoption of this standard will have a material impact on our financial statements and disclosures.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, Statement of Comprehensive Income. This standard requires entities to present items of net income and other comprehensive income either in one continuous statement or in two separate, but consecutive, statements. The new requirements are effective for public entities as of the beginning of a fiscal year that begins after December 15, 2011 (calendar year 2012 for Fortune Brands). Full retrospective application is required. Early adoption is permitted. We believe that adoption of this standard will not have a material impact on our financial statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded)

FORWARD-LOOKING STATEMENTS

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

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

expiration of government economic stimulus programs,

competitive market pressures (including pricing pressures),

successful development of new products and processes,

consolidation of 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,

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 and natural disasters,

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There were no material changes in the information provided in Item 7A-Quantitative and Qualitative Disclosures about Market Risk of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

The Company s management has evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting.

There have not been any changes in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

(a) Smoking and Health 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.

As of August 1, 2011, there were approximately five smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants. This number has not changed from the number reported in our Annual Report on Form 10-K for the year ended December 31, 2010. See Pending Cases below.

Certain Developments Affecting the Indemnitor

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On November 6, 2000, 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 courtAs 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.

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.

Pending Cases

There were no pending smoking and health proceedings in which the Company has been named as a defendant other than as previously reported in Exhibit 99 of our Annual Report on Form 10-K for the year ended December 31, 2010.

Terminated Cases

No tobacco-related cases were terminated in the three months ended June 30, 2011.

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, and where appropriate, these actions are being vigorously contested.

(b) Environmental Matters.

We are subject to laws and regulations relating to protection of the environment. It is not possible to quantify with certainty the potential impact of actions relating to environmental matters, particularly remediation and other compliance efforts that our subsidiaries may undertake in the future. In our opinion, however, compliance with current environmental protection laws (before taking into account estimated recoveries from third parties) will not have a material adverse effect upon our results of operations, cash flows or financial condition.

Item 1A. RISK FACTORS.

There were no material changes from risk factors previously disclosed in our Annual Report on Form 10-K as of December 31, 2010.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

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 June 30, 2011:

Three Months Ended June 30, 2011	Total number of shares purchased [1]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1 April 30		$		
May 1 May 31	1,574	63.50		
June 1 June 30				
Total	1,574	$ 63.50		

[1] The Company purchased all of the 1,574 shares between May 1, 2011 and May 31, 2011 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.

Item 5. OTHER INFORMATION.

On April 29, 2011, the Company filed a Current Report on Form 8-K disclosing the final voting results in connection with the Company s annual meeting of stockholders held on April 26, 2011. In line with the recommendation from the Company s stockholders, the Company will provide an advisory vote on executive compensation on an annual basis.

Item 6. EXHIBITS

2.1.*	Stock Purchase Agreement, dated as of May 19, 2011, by and between the Company and Alexandria Operations Corp.
2.2.*	Amendment No. 1 to Stock Purchase Agreement, dated July 29, 2011, by and between the Company and Alexandria Operations Corp.
3(i).	Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3(i) to our Current Report on Form 8-K filed on April 29, 2011, Commission file number 1-9076.
3(ii).	By-laws of Fortune Brands, Inc., as amended April 26, 2011, are incorporated herein by reference to Exhibit 3(ii) to the Company s Current Report on Form 8-K filed on April 29, 2011, Commission file number 1-9076.
10.1.*	Fortune Brands, Inc. Severance Plan for Vice Presidents (as amended and restated July 15, 2011).
31.1.*	Certificate of Chief Executive Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2.*	Certificate of Chief Financial Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.
32.*	Joint CEO/CFO Certificate Required Under Section 906 of the Sarbanes-Oxley Act of 2002.
101.*	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) Condensed Consolidated Statement of Equity, and (v) Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

The Company agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORTUNE BRANDS, INC.
(Registrant)

Date: August 5, 2011

/s/ Craig P. Omtvedt
Craig P. Omtvedt
Senior Vice President and Chief Financial Officer
(Duly authorized officer and principal financial officer of the Registrant)

EXHIBIT INDEX

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