FORTUNE BRANDS INC
Form 10-Q
May 05, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004	**Commission file number 1-9076**

FORTUNE BRANDS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**13-3295276**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

300 Tower Parkway, Lincolnshire, Illinois 60069-3640

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

The number of shares outstanding of the Registrant s common stock, par value $3.125 per share, at April 30, 2004 was 146,248,459 shares.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions)

(Unaudited)

	March 31, 2004	December 31, 2003
Assets		
Current assets		
Cash and cash equivalents	$ 152.1	$ 104.6
Accounts receivable, net	1,048.9	973.4
Inventories		
Bulk whiskey	237.7	231.4
Other raw materials, supplies and work in process	285.8	281.2
Finished products	444.2	443.6
	967.7	956.2
Other current assets	276.7	247.4
Total current assets	2,445.4	2,281.6
Property, plant and equipment, net	1,347.9	1,358.9
Goodwill resulting from business acquisitions, net	1,978.5	2,439.5
Other intangible assets resulting from business acquisitions, net	1,367.0	889.1
Other assets	460.9	475.8
Total assets	$ 7,599.7	$ 7,444.9

See Notes to Condensed Consolidated Financial Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(In millions, except per share amounts)

(Unaudited)

	March 31, 2004	December 31, 2003
Liabilities and stockholders equity		
Current liabilities		
Notes payable to banks	$ 32.1	$ 24.1
Commercial paper	616.3	506.3
Current portion of long-term debt	200.5	200.5
Accounts payable	343.9	316.4
Accrued taxes	405.5	342.6
Accrued customer programs	146.8	184.6
Accrued salaries, wages and other compensation	109.2	166.3
Accrued expenses and other liabilities	359.4	392.7
Total current liabilities	2,213.7	2,133.5
Long-term debt	1,245.0	1,242.6
Deferred income	166.5	173.3
Postretirement and other liabilities	811.7	806.5
Total liabilities	4,436.9	4,355.9
Minority interest in consolidated subsidiaries	369.7	369.5
Stockholders equity		
$2.67 Convertible Preferred stock - redeemable at Company s option	7.4	7.5
Common stock, par value $3.125 per share, 229.6 million shares issued	717.4	717.4
Paid-in capital	136.1	126.7
Accumulated other comprehensive loss	(96.6)	(106.2)
Retained earnings	5,037.8	4,942.2
Treasury stock, at cost	(3,009.0)	(2,968.1)
Total stockholders equity	2,793.1	2,719.5
Total liabilities and stockholders equity	$ 7,599.7	$ 7,444.9

See Notes to Condensed Consolidated Financial Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

for the Three Months Ended March 31, 2004 and 2003

(In millions, except per share amounts)

(Unaudited)

	2004	2003
Net sales	$ 1,707.8	$ 1,392.1
Cost of products sold	941.8	770.7
Excise taxes on spirits and wine	78.5	70.5
Advertising, selling, general and administrative expenses	444.1	371.4
Amortization of intangibles	11.1	4.8
Restructuring charges	2.7	2.1
Operating income	229.6	172.6
Interest and related expenses	21.7	18.2
Other income, net	(19.0)	(8.9)
Income before income taxes and minority interests	226.9	163.3
Income taxes	82.5	59.5
Minority interests	4.7	4.3
Net income	$ 139.7	$ 99.5
Earnings per common share		
Basic	$ 0.95	$ 0.68
Diluted	$ 0.92	$ 0.66
Dividends paid per common share	$ 0.30	$ 0.27
Average number of common shares outstanding		
Basic	146.3	146.2
Diluted	151.2	150.2

See Notes to Condensed Consolidated Financial Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the Three Months Ended March 31, 2004 and 2003

(In millions)

(Unaudited)

	2004	2003
Operating activities		
Net income	$ 139.7	$ 99.5
Restructuring charges	1.2	1.7
Depreciation and amortization	59.6	46.0
Deferred income taxes	9.2	36.4
Increase in accounts receivable	(69.7)	(46.1)
Increase in inventories	(10.8)	(17.4)
Decrease in accounts payable, accrued expenses and other liabilities	(110.3)	(83.1)
Increase in accrued taxes	63.1	27.5
Tax benefit on exercise of stock options	11.7	0.6
Other operating activities, net	(9.8)	(16.3)
Net cash provided from operating activities	83.9	48.8
Investing activities		
Additions to property, plant and equipment	(52.1)	(31.3)
Proceeds from the disposition of property, plant and equipment	2.3	2.9
Net cash used by investing activities	(49.8)	(28.4)
Financing activities		
Increase in short-term debt, net	117.9	215.2
Dividends paid to stockholders	(44.1)	(39.7)
Repayment of long-term debt	(0.2)	
Cash purchases of common stock for treasury	(67.9)	(90.3)
Proceeds received from exercise of stock options	23.6	5.7
Other financing activities, net	(17.4)	(24.9)
Net cash provided by financing activities	11.9	66.0
Effect of foreign exchange rate changes on cash	1.5	1.9
Net increase in cash and cash equivalents	47.5	88.3
Cash and cash equivalents at beginning of period	104.6	15.4
Cash and cash equivalents at end of period	$ 152.1	$ 103.7

See Notes to Condensed Consolidated Financial Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

for the Three Months Ended March 31, 2004 and 2003

(In millions except per share amounts)

(Unaudited)

	$2.67 Convertible preferred stock	Common stock	Paid-in capital	Accumulated other comprehensive loss	Retained earnings	Treasury stock, at cost	Total
Balance at December 31, 2002	$ 7.9	$ 717.4	$ 116.0	$ (177.6)	$ 4,529.9	$ (2,880.4)	$ 2,313.2
Comprehensive income							
Net income					99.5		99.5
Changes during the period				19.6			19.6
Total comprehensive income				19.6	99.5		119.1
Dividends ($0.27 per share)					(39.7)		(39.7)
Purchases (0.7 shares)						(86.6)	(86.6)
Tax benefit on exercise of stock options			0.6				0.6
Conversion of preferred stock (0.2 shares) and delivery of stock plan shares	(0.1)		(1.4)			8.1	6.6
Balance at March 31, 2003	$ 7.8	$ 717.4	$ 115.2	$ (158.0)	$ 4,589.7	$ (2,958.9)	$ 2,313.2
Balance at December 31, 2003	$ 7.5	$ 717.4	$ 126.7	$ (106.2)	$ 4,942.2	$ (2,968.1)	$ 2,719.5
Comprehensive income							
Net income					139.7		139.7
Changes during the period				9.6			9.6
Total comprehensive income				9.6	139.7		149.3
Dividends ($0.30 per share)					(44.1)		(44.1)
Purchases (1.0 shares)						(69.1)	(69.1)
Tax benefit on exercise of stock options			11.7				11.7
Conversion of preferred stock (0.8 shares) and delivery of stock plan shares	(0.1)		(2.3)			28.2	25.8
Balance at March 31, 2004	$ 7.4	$ 717.4	$ 136.1	$ (96.6)	$ 5,037.8	$ (3,009.0)	$ 2,793.1

See Notes to Condensed Consolidated Financial Statements.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated balance sheet as of March 31, 2004, the related condensed consolidated statements of income for the three-month periods ended March 31, 2004 and 2003, and the related condensed consolidated statements of cash flows and stockholders equity for the three-month periods ended March 31, 2004 and 2003 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments included restructuring and restructuring-related charges in 2004 and 2003. Interim results may not be indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company s annual consolidated financial statements and notes. The year-end condensed consolidated balance sheet was derived from the Company s audited financial statements, but does not include all disclosures required by generally accepted accounting principles. This Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes incorporated by reference in its 2003 Annual Report on Form 10-K.

2. Stock-Based Compensation

The Company uses stock options and performance awards to compensate key employees of the Company. The Company had awards outstanding under three Long-Term Incentive Plans (the Plans) as of March 31, 2004. Grants under the 2003 Long-Term Incentive Plan may be made on or before December 31, 2008 for up to 12 million shares of common stock. Grants under the 1999 Long-Term Incentive Plan may be made on or before December 31, 2004 for up to 12 million shares of common stock. No new stock-based awards can be made under the 1990 Long-Term Incentive Plan, but there are existing awards that continue to be exercisable.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Stock-Based Compensation (Concluded)

Stock options have exercise prices equal to the fair values at the dates of grant. Options generally may not be exercised prior to one year after the date of grant or more than ten years from the date of grant. Options issued since November 1998 generally vest one-third each year over a three-year period after the date of grant. Performance awards are currently amortized into expense over the three-year vesting period, and are generally paid in stock but can be paid in cash if individual stock ownership guidelines are met.

The Company has elected to apply the accounting provisions of Accounting Principles Board No. 25, Accounting for Stock Issued to Employees for the stock option portion of stock-based compensation and to disclose pro forma net income and earnings per share required under Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. If compensation cost for the Company s stock-based compensation was determined based on the fair value at the grant dates for awards under the Plans, in accordance with the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, and amortized to expense on a straight-line basis over the vesting period, the Company s pro-forma net income and earnings per share would have been as indicated below for the three months ended March 31, 2004 and 2003.

Three Months Ended March 31,

(In millions, except per share amounts)

	2004	2003
Net income as reported	$ 139.7	$ 99.5
Add: Stock-based employee compensation (performance awards) included in reported net income, net of tax	2.8	1.6
Deduct: Total stock-based employee compensation (performance awards and options) determined under the fair-value based method for all awards, net of tax	(9.0)	(7.0)
Pro forma net income	$ 133.5	$ 94.1
Earnings per Common share		
Basic as reported	$ 0.95	$ 0.68
Basic pro forma	$ 0.91	$ 0.64
Diluted as reported	$ 0.92	$ 0.66
Diluted pro forma	$ 0.88	$ 0.63

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounting Changes

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. Prior to FIN 46, companies generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46, which did not have an impact on the Company s results or financial position, was effective for newly created variable interest entities as of January 31, 2003 and was effective for existing variable interest entities as of October 1, 2003.

In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) to clarify certain provisions of FIN 46 and to exempt certain entities from its requirements. Special effective dates apply to enterprises that have fully or partially applied FIN 46 prior to issuance of FIN 46R. Otherwise, application of FIN 46R or FIN 46 was required in financial statements of public entities that have interests in structures that are special-purpose entities for periods ending after December 15, 2003. The adoption of FIN 46R in January 2004 did not have an impact on the Company s results or financial position.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In November 2003, the FASB issued Staff Position No. FAS 150-3 (FSP 150-3), Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150 (FAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. FAS 150 established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FSP 150-3 deferred the effective date for certain mandatorily redeemable noncontrolling interests indefinitely pending further FASB action. The initial adoption of FAS 150 did not have an impact on the Company s results or financial position. The Company will evaluate the impact of any additional requirements of this standard when it is finalized.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounting Changes (Concluded)

Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003

In March 2004, the FASB issued proposed FASB Staff Position No. 106-b (FSP FAS *106-b*), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FSP FAS *106-b* provides guidance on the accounting for, and disclosure of, the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Prescription Act). FSP FAS *106-b* is a follow-up to FSP FAS *106-1*, issued in January 2004, which permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effect of the Medicare Prescription Act pending the FASB s consideration of the underlying accounting issues. In December 2003, the Company elected to defer accounting for the effects of the Medicare Prescription Act pursuant to FSP FAS *106-1*. The quarter ending March 31, 2004 was the first period in which the plan s accounting for the effects of the Medicare Prescription Act normally would have been reflected in the financial statements. FSP FAS *106-b* is effective for periods beginning after June 15, 2004. As a result, the accompanying financial statements and notes do not reflect the effects of the Medicare Prescription Act. The Company is evaluating the impact of the Medicare Prescription Act and does not believe that it will have a material impact on the Company s results or financial position.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Acquisitions

In November 2003, the Home and Hardware business acquired Therma-Tru Holdings, Inc. (Therma-Tru), the leading manufacturer of residential entry door systems in the United States. This acquisition fits our strategic focus on leading brands, shares beneficial demographics and market fundamentals with our other Home and Hardware brands, and creates valuable synergies within our Home and Hardware business. The purchase was financed through the issuance of commercial paper and subsequently partially refinanced through the issuance of long-term debt securities under the Company s outstanding shelf registration statement filed with the Securities and Exchange Commission. Results of operations have been included in the Company s consolidated financial statements as of the acquisition date. The acquisition price was $924.0 million, net of cash.

As a result of the acquisition of Therma-Tru, identifiable intangibles were recognized and valued, resulting in identifiable intangibles and goodwill of $488.1 million and $470.1 million, respectively. Identifiable intangibles of $488.1 million consisted of $234.2 million of indefinite-lived tradenames, $178.5 million of customer relationship intangibles and $75.4 million of patents/proprietary technology intangibles. Patents/proprietary technology and customer relationship intangibles will be amortized over a useful life of 15 years.

In December 2003, the Spirits and Wine business obtained an extension of the rights to manufacture and distribute Gilbey s gin and vodka for an additional 20 years, extending the license agreement to 2027, and acquired trademark rights in California to Kamchatka vodka. In July 2003, the Spirits and Wine business acquired Wild Horse Winery, a California-based producer of premium and ultra-premium wines. In June 2003, the Home and Hardware business acquired Capital Cabinet Corporation, a U.S.-based manufacturer of kitchen and bath cabinets. In addition, in April 2003, the Home and Hardware business acquired American Lock Company, the largest U.S.-based manufacturer of solid body commercial padlocks. The aggregate cost of these acquisitions was $123.7 million. The cost exceeded the estimated fair value of net assets acquired by approximately $90 million. The businesses acquired have been included in consolidated results from the date of acquisition.

In April 2003, the Spirits and Wine business returned a portion of invested capital ($304.1 million) to its shareholders, V&S Vin & Sprit AB and the Company. This return of capital was related to the disposition of Jim Beam Brands Worldwide, Inc. s U.K.-based Scotch whisky business in 2001.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and Other Identifiable Intangibles

The Company carries finite-lived identifiable intangibles, principally tradenames, that are subject to amortization over their estimated useful life, either 15 or 30 years, based on the assessment of a number of factors that may impact useful life. These factors include historical and expected future tradename performance in terms of geographic markets, volumes and prices, as well as plans for ongoing tradename support over the estimated useful lives, and other relevant factors that may impact the remaining useful lives of the tradenames. The gross carrying value and accumulated amortization of the Company s amortizable intangible assets were $713.9 million and $142.5 million, respectively, as of March 31, 2004, compared to $545.1 million and $152.6 million, respectively, as of December 31, 2003. The change was principally due to finalization of the accounting for the Therma-Tru acquisition.

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

(In millions)	As of March 31, 2004 Gross Carrying Amounts	As of March 31, 2004 Accumulated Amortization
Amortizable intangible assets		
Tradenames	$ 376.3	$ (125.0)
Customer Relationships	252.0	(15.3)
Patents/proprietary technology	75.4	(2.1)
Licenses and other	10.2	(0.1)
Total	$ 713.9	$ (142.5)
Unamortizable intangible assets		
Tradenames	913.1	(117.5)(1)

(1) Accumulated amortization prior to the adoption of FAS 141

The Company s intangible amortization was $11.1 million and $4.8 million for the three months ended March 31, 2004 and 2003, respectively. The increase was due to amortization of identifiable intangibles associated with the 2003 acquisitions.

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and Other Identifiable Intangibles (Concluded)

In addition to these identifiable intangibles, the Company also had net goodwill of approximately $2.0 billion as of March 31, 2004 and indefinite-lived intangibles, principally tradenames, of $795.6 million as of March 31, 2004. The change in goodwill during the three months ended March 31, 2004 of $464.2 million was principally attributable to purchase accounting adjustments for 2003 acquisitions and foreign currency fluctuations.

6. Information on Business Segments

Net sales for the three months ended March 31, 2004 and 2003 by segment are as follows:

(In millions)	Net Sales 2004	Net Sales 2003
Home and Hardware	$ 821.5	$ 620.6
Spirits and Wine	276.5	239.2
Golf	338.9	282.4
Office	270.9	249.9
	$ 1,707.8	$ 1,392.1

Operating income for the three months ended March 31, 2004 and 2003 by segment are as follows:

(In millions)	Operating Income 2004	Operating Income 2003
Home and Hardware	$ 113.7	$ 88.3
Spirits and Wine	66.8	57.9
Golf	51.0	32.7
Office	16.0	8.0
Less:		
Corporate expenses	17.9	14.3
	$ 229.6	$ 172.6

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Earnings Per Share

The computation of basic and diluted earnings per common share for Net income is as follows (in millions, except per share amounts):

	Three Months Ended March 31,	
	2004	**2003**
Net income	$ 139.7	$ 99.5
Less: Preferred stock dividends	0.2	0.2
Income available to common stockholders basic	139.5	99.3
Convertible Preferred stock dividend requirements	0.2	0.2
Income available to common stockholders diluted	$ 139.7	$ 99.5
Weighted average number of common shares outstanding basic	146.3	146.2
Conversion of Convertible Preferred stock	1.5	1.6
Exercise of stock options	3.4	2.4
Weighted average number of common shares outstanding diluted	151.2	150.2
Earnings per common share		
Basic	$ 0.95	$ 0.68
Diluted	$ 0.92	$ 0.66

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Pension and Other Retiree Benefits

The components of net periodic benefit cost for pension and postretirement benefits for the three months ended March 31, 2004 and 2003 are as follows:

Components of Net Periodic Benefit Cost

	Three Months Ended March 31,			
	Pension Benefits		Postretirement Benefits	
(In millions)	**2004**	**2003**	**2004**	**2003**
Service cost	$ 8.1	$ 7.9	$ 0.8	$ 0.8
Interest cost	14.4	13.8	2.6	2.4
Expected return on plan assets	(17.7)	(15.6)		
Amortization of prior service cost	0.9	0.9	0.3	(0.1)
Amortization of net (gain) loss	2.8	1.3		(0.1)
Net periodic benefit cost	$ 8.5	$ 8.3	$ 3.7	$ 3.0

9. Guarantees and Commitments

As of March 31, 2004, the Company had third-party guarantees totaling approximately $77 million. These represent guarantees of the debt of Maxxium Worldwide B.V. (Maxxium), the Company s Spirits and Wine business s international sales and distribution joint venture. The Company is required to perform under these guarantees in the event that Maxxium fails to make contractual payments. In 2003, the Company renewed its guarantee of Maxxium s credit facilities. The renewal resulted in an extension of the expiration date of the credit facility s committed portion from November 14, 2003 to June 13, 2006. Because the guarantees of Maxxium debt were modified after the effective date of Financial Accounting Standards Board Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, the Company recorded a liability of approximately $2 million as of March 31, 2004 to reflect the fair value of the guarantees to Maxxium (through a reduction in the credit facility s interest rate).

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Guarantees and Commitments (Concluded)

The Company has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain divestitures. These indemnities related to various representations typically included in divestiture agreements, such as environmental, tax, product liability, employee liability and other contingencies, depending on the transactions. In several of these divestitures, a maximum obligation for certain contingencies is not specified, which is not atypical for such transactions. Accordingly, pursuant to FIN 45, payments under these divestiture-related indemnity obligations cannot be reasonably estimated. The duration of the indemnities varies, and in some cases is indefinite. As these indemnities were entered into prior to December 31, 2002, we have not recorded any liability for these indemnities in the consolidated financial statements. The Company has not made any indemnity payments that were material to the Company s financial position or results of operations for any quarter. Furthermore, the Company does not expect that any sums it may have to pay in connection with any of these indemnity obligations would have a material adverse effect on our consolidated financial position for fiscal 2004 or in subsequent periods.

10. Product Warranties

The Company generally records warranty expense at the time of sale. The Company offers its customers various warranty terms based upon the type of product that is sold.

The following table summarizes the activity related to the Company s product warranty liability during the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
(In millions)	**2004**	**2003**
Reserve balance at the beginning of the year	$ (12.9)	$ (9.2)
Provision for warranties issued	(7.7)	(7.8)
Settlements made (in cash or in kind)	6.7	5.6
Reserve balance	$ (13.9)	$ (11.4)

FORTUNE BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Restructuring and Restructuring-Related Charges

Restructuring Charges

In April 2001, the Company announced that as a result of its evaluation of strategic options for its Office business, it would immediately begin implementing a plan designed to improve both financial results and the long-term value of the business. In conjunction with this restructuring program, during the three months ended March 31, 2004, the Company s Office business recorded charges associated with consolidation of manufacturing and distribution facilities and employee terminations.

In addition, the Company s Home and Hardware business recorded charges associated with the consolidation of Waterloo s manufacturing facilities from four to three, as follows: