

FORTUNE BRANDS INC
Form DEF 14A
March 12, 2004

**300 Tower Parkway
Lincolnshire, Illinois 60069**

March 12, 2004

DEAR STOCKHOLDER:

The Fortune Brands, Inc. 2004 Annual Meeting of Stockholders will be held at 1:30 p.m. (Central Daylight Time) on Tuesday, April 27, 2004 at the Marriott Lincolnshire, 10 Marriott Drive, Lincolnshire, Illinois. The sole purpose of the meeting is to consider the business described in the following Notice of Annual Meeting and Proxy Statement.

It is important to ensure that your shares be represented at the meeting, whether or not you personally plan to attend. You can submit your proxy by using a toll-free telephone number or the Internet. Instructions for using these services are provided on the enclosed proxy form. If you decide to vote your shares using the enclosed proxy form, we urge you to complete, sign, date and return it promptly, using the enclosed postage paid return envelope.

Sincerely,

Norman H. Wesley
*Chairman of the Board
and Chief Executive Officer*

**300 Tower Parkway
Lincolnshire, Illinois 60069**

**NOTICE OF ANNUAL MEETING
AND PROXY STATEMENT**

March 12, 2004

The Annual Meeting of Stockholders of Fortune Brands, Inc. (Fortune Brands or the Company) will be held at the Marriott Lincolnshire, 10 Marriott Drive, Lincolnshire, Illinois, at 1:30 p.m. (Central Daylight Time) on Tuesday, April 27, 2004, to consider and vote upon:

Item 1:

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The election of three directors for a term expiring at the 2007 Annual Meeting or until their successors have been elected and qualified (see pages 3 to 23 of the Proxy Statement);

Item 2: The ratification of the appointment by the Company's Audit Committee of PricewaterhouseCoopers LLP as our independent auditors for 2004 (see page 23 of the Proxy Statement);

Item 3: If presented, a stockholder proposal entitled Shareholder Vote on Poison Pills (see pages 23 to 26 of the Proxy Statement);

and to transact such other business as may properly come before the meeting.

If you hold common stock or \$2.67 Convertible Preferred stock at the close of business on February 27, 2004, you will be entitled to vote at the Annual Meeting. Please submit a proxy *as soon as possible* so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy (1) by telephone, (2) through the Internet, or (3) by mail. For specific instructions, please refer to the next page of this Proxy Statement and the enclosed proxy form.

We are also soliciting voting instructions from participants in the Fortune Brands Retirement Savings Plan, Fortune Brands Hourly Employee Retirement Savings Plan and Future Brands LLC Retirement Savings Plan who have invested in the Fortune Brands Stock Fund. We ask each plan participant to sign, date and return the enclosed proxy card, or provide voting instructions by telephone or through the Internet. The proxy card will serve as a voting instruction card when we forward it to the trustee.

Mark A. Roche

*Senior Vice President, General Counsel
and Secretary*

This Proxy Statement and accompanying proxy are being distributed on or about March 12, 2004.

VOTING AND PROXIES

What is the purpose of the Annual Meeting?

The purpose of the Annual Meeting is for stockholders to act upon the matters outlined on the prior page and described in this Proxy Statement, including: (1) the election of directors, (2) the ratification of the appointment of our independent auditors, and (3) if presented, consideration of a stockholder proposal entitled Shareholder Vote on Poison Pills. In addition, management will respond to questions from stockholders.

Who is entitled to vote?

Only stockholders who own the Company's common stock or \$2.67 Convertible Preferred stock of record at the close of business on February 27, 2004 are entitled to vote. Each holder of common stock is entitled to one vote per share. Each holder of \$2.67 Convertible Preferred stock is entitled to three-tenths (0.3) of one vote per share. There were 146,279,757 shares of common stock and 244,231 shares of \$2.67 Convertible Preferred stock outstanding on February 27, 2004.

What is the difference between being a record holder and holding shares in street name?

A record holder holds shares in his or her own name. Shares held in street name means shares that are held in the name of a bank or broker on a person's behalf.

How do I vote?

Record holders can vote by filling out the accompanying proxy and returning it in the postage paid return envelope. You can also vote by telephone or the Internet. Voting information is provided on the enclosed proxy.

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If you hold shares in street name, you must vote by giving instructions to your broker or nominee. You should follow the voting instructions on the form that you receive from them. The availability of telephone and Internet voting will depend on the bank's or broker's voting process. Your broker or nominee might not be permitted to exercise voting discretion as to some of the matters to be acted upon. If you do not give your broker or nominee specific instructions, your shares might not be voted on those matters and might not be counted in determining the number of shares necessary for approval. *Therefore, please give voting instructions to your broker on all three voting items.*

How will my proxy be voted?

Your proxy, when properly signed and returned to us, or processed by telephone or via the Internet, and not revoked, will be voted in accordance with your instructions relating to the election of directors and Items 2 and 3. We are not aware of any other matter that may be properly presented other than the election of directors and Items 2 and 3. If any other matter is properly presented, the persons named in the enclosed form of proxy will have discretion to vote in their best judgment.

What if I don't mark the boxes on my proxy?

Unless you give other instructions on your form of proxy or when you cast your proxy by telephone or the Internet, the persons named as proxies will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth together with the description of each Item in this Proxy Statement. In summary, the Board recommends a vote FOR:

the election of directors;

the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for 2004; and

AGAINST:

the stockholder proposal entitled Shareholder Vote on Poison Pills.

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Can I go to the Annual Meeting if I vote by proxy?

Yes. Attending the meeting does not revoke your proxy. However, you may revoke your proxy at any time before it is actually voted by giving written notice to the secretary of the meeting or by delivering a later dated proxy.

Will my vote be public?

No. As a matter of policy, stockholder proxies, ballots and tabulations that identify individual stockholders are kept secret and are only available to the independent Inspectors of Election and certain employees who must acknowledge their responsibility to keep your votes secret.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority in voting power of the outstanding shares of common stock and \$2.67 Convertible Preferred stock entitled to vote will constitute a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

How many votes are needed to approve an Item?

The election of directors will be approved by a plurality of the votes cast. A proxy marked to withhold authority for the election of one or more directors will not be voted with respect to the director or directors indicated.

The affirmative vote of a majority in voting power of the shares of common stock and \$2.67 Convertible Preferred stock, voted together as one class, is necessary for approval of Items 2 and 3. Proxies marked as abstentions on these matters will not be voted and will have the effect of a

negative vote.

What if I am a participant in the Fortune Brands Retirement Savings Plan, the Fortune Brands Hourly Employee Retirement Savings Plan, or the Future Brands LLC Retirement Savings Plan?

We are also mailing this Proxy Statement and a voting instruction card to participants in the Fortune Brands Retirement Savings Plan, the Fortune Brands Hourly Employee Retirement Savings Plan, and the Future Brands LLC Retirement Savings Plan who invest in the Fortune Brands Stock Fund under the Plans. The Trustee of the Plans, as record holder of Fortune Brands common stock held in the Plans, will vote whole shares attributable to your interest in the Fortune Brands Stock Fund in accordance with your directions given on the proxy card, by telephone or the Internet. If you invest in the Fortune Brands Stock Fund under the Plans and you sign and return the enclosed proxy card, we will forward it to the Trustee of the Plans. The proxy card will serve as instructions to the Trustee to vote the whole shares attributable to your interest in the manner you indicate on the card.

Item 1

ELECTION OF DIRECTORS

The Board of Directors currently consists of 10 members and is divided into three classes, having three-year terms that expire in successive years. The term of office of directors in Class III expires at the 2004 Annual Meeting. The Board of Directors proposes that the three nominees described below, each of whom are currently serving as Class III directors, be re-elected to Class III for a new term of three years and until their successors are duly elected and qualified. Proxies cannot be voted for more than the number of nominees proposed for re-election. All nominees and all current Class I and Class II directors were elected by the stockholders, except that J. Christopher Reyes was elected by the Board as a Class I director effective December 10, 2002 and Pierre E. Leroy was elected by the Board as a Class I director on September 30, 2003.

Each of the nominees has consented to serve a three-year term. If any of them should become unavailable to serve as a director (which is not now expected), the Board may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Board.

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The names of the nominees and Class I and Class II directors, along with their present positions, their principal occupations during the past five years, directorships held with other corporations, their ages and the year first elected as a director, are set forth below.

Name	Present positions and offices with the Company, principal occupations during the past five years and other directorships	Age	Year first elected director
NOMINEES FOR DIRECTORS CLASS III DIRECTORS TERM EXPIRING 2007			
Anne M. Tatlock	Chairman and Chief Executive Officer of Fiduciary Trust Company International (global investment management services) since 2000; President and Chief Executive Officer of Fiduciary Trust Company International prior thereto. A Director and Vice Chairman of Franklin Resources, Inc. Also a director of American General Corporation and Merck & Co., Inc.	64	1996
Norman H. Wesley	Chairman of the Board and Chief Executive Officer of Fortune Brands, Inc. since December 1999; President and Chief Operating Officer of Fortune Brands, Inc. prior thereto. Also a director of R.R. Donnelley & Sons Company and Pactiv Corporation.	54	1999
Peter M. Wilson	Retired since March 2004; Chairman of Gallaher Group Plc (tobacco products) from January 2000 to March 2004; Chairman and Chief Executive of Gallaher Group Plc prior thereto. Also a director of Kesa Electricals plc and Somerfield plc.	62	1994

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Name	Present positions and offices with the Company, principal occupations during the past five years and other directorships	Age	Year first elected director
CLASS I DIRECTORS TERM EXPIRING 2005			
Thomas C. Hays	Retired since December 1999; Chairman of the Board and Chief Executive Officer of Fortune Brands, Inc. prior thereto.	68	1981
Gordon R. Lohman	Retired since 1999; Chairman and Chief Executive Officer of Amsted Industries Incorporated (railroad, construction and building market products) prior thereto. Also a director of Ameren Corporation.	69	1990

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Name	Present positions and offices with the Company, principal occupations during the past five years and other directorships	Age	Year first elected director
J. Christopher Reyes	Co-Chairman of Reyes Holdings, L.L.C. (food and beverage distributor). Mr. Reyes is also a director of The Allstate Corporation and Wintrust Financial Corporation.	50	2002
Pierre E. Leroy	President, Worldwide Construction & Forestry Division and Worldwide Parts Division of Deere & Company (farming and lawn care product manufacturer) since December 2003; President, Worldwide Construction & Forestry Division and John Deere Power Systems from 2000 to December 2003; President, Worldwide Construction Equipment Division of Deere & Company prior thereto.	55	2003
CLASS II DIRECTORS TERM EXPIRING 2006			
Patricia O. Ewers	Retired since July 2000; President of Pace University prior thereto.	68	1991
Eugene A. Renna	Retired since January 2002; Executive Vice President of Exxon Mobil Corporation (oil and petroleum products) from December 1999 to January 2002; President and Chief Operating Officer of Mobil Corporation prior thereto. Also a director of Ryder System, Inc. and AK Steel Holding Corporation.	59	1998
David M. Thomas	Chairman of the Board and Chief Executive Officer of IMS Health Incorporated (pharmaceutical and healthcare information solution provider) since 2000; Senior Vice President and Group Executive of the Personal Systems Group of International Business Machines Corporation prior thereto. Mr. Thomas is also a director of The Trizetto Group, Inc. and The MONY Group Inc.	54	2000

Last year there were five meetings of the Board of Directors. Each director attended at least 75% of the total meetings of the Board of Directors and committees of the Board of Directors of which the director was a member. In addition to participation at Board and committee meetings, our directors discharge their responsibilities throughout the year through personal meetings and other communications, including considerable telephone contact, with the Chairman and others regarding matters of interest and concern to the Company.

For information on the beneficial ownership of securities of the Company by directors and executive officers, see Certain Information Regarding Security Holdings on pages 26 and 27.

Director Independence

All of the non-employee members of the Board of Directors have been determined by the Board to be independent as defined in the New York Stock Exchange listing standards and the Company's Corporate Governance Principles. The members of the Audit Committee, Nominating and Corporate Governance Committee and Compensation and Stock Option Committee are all independent directors. Mr. Gordon R. Lohman has been elected as Lead Director to preside at all executive sessions of the Board.

Audit Committee Financial Expert

Each of the members of the Audit Committee (Pierre E. Leroy, J. Christopher Reyes, Anne M. Tatlock and David M. Thomas) is an audit committee financial expert as defined in Item 401(h)(1) of Regulation S-K under the Securities Exchange Act of 1934 (the Exchange Act). Each Audit Committee member is also independent as defined in Section 303.01(B) of the New York Stock Exchange listing standards and as defined in Rule 10A-3 under the Exchange Act.

Stockholder Communication

The Board of Directors and management encourage communication from the Company's stockholders. Stockholders who wish to communicate with the Company's management should direct their communication to the Chairman and Chief Executive Officer or the Secretary's Department, 300 Tower Parkway, Lincolnshire, Illinois 60069. Stockholders who wish to communicate with the non-management directors or any individual director should direct their communication c/o the Secretary's Department at the address above. The Secretary will forward communications intended for the Board to Mr. Gordon R. Lohman as Lead Director or, if intended for an individual director, to that director. If multiple communications are received on a similar topic, the Corporate Secretary may, in his discretion, forward only representative correspondence. Any communications that are abusive, in bad taste or present safety or security concerns may be handled differently.

Annual Meeting Attendance

The Company does not have a formal policy requiring members of the Board to attend the Annual Meeting, although all directors are strongly encouraged to attend. At the 2003 Annual Meeting of Stockholders, all but one director were present.

Committees

The Board of Directors has established an Executive Committee, an Audit Committee, a Compensation and Stock Option Committee, a Nominating and Corporate Governance Committee and a Corporate Responsibility Committee.

Executive Committee

Members	Messrs. Hays, Lohman, Wilson and Wesley and Mrs. Tatlock
Number of Meetings Last Year	One
Primary Functions	Has all the power of the full Board except for specific powers which by law must be exercised by the

full Board.

Audit Committee

Members	Messrs. Leroy, Reyes and Thomas and Mrs. Tatlock
Number of Meetings Last Year	Four (The Committee also had several teleconferences to review and discuss press releases and quarterly SEC reports.)
Primary Functions	<ol style="list-style-type: none"> 1. Retains, subject to stockholder ratification, a firm of independent auditors to audit our financial statements and approves the scope of the firm's audit; 2. Reviews reports and recommendations of our independent auditors; 3. Reviews the scope of all internal audits and related reports and recommendations; 4. Pre-approves all audit and non-audit services provided by our independent auditors; 5. Monitors integrity of financial statements; 6. Monitors compliance with financial reporting requirements; 7. Monitors the independence and performance of our independent auditors and the performance of our internal auditors; 8. Discusses the Company's financial statements and its quarterly and annual reports to be filed with the Securities Exchange Commission (the SEC); 9. Reviews the Company's policies regarding risk assessment and risk management; and 10. Establishes procedures for receiving and responding to concerns regarding accounting and auditing matters.

Compensation and Stock Option Committee

Members	Messrs. Lohman, Renna and Reyes and Dr. Ewers
Number of Meetings Last Year	Five
Primary Functions	<ol style="list-style-type: none"> 1. Administers our Long-Term Incentive Plans; 2. Designates key employees who may be granted stock options, performance awards and other stock-based awards; 3. Designates the number of shares that may be granted to a key employee, within specified limits; 4. Reviews and approves compensation and goals for the chief executive officer and evaluates his or her performance, in consultation with the Company's

independent directors;

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5. Sets compensation for our officers who hold the office of Vice President or a more senior office and recommends compensation levels for the Chief Executive Officers of our operating subsidiaries;
6. Determines the incentive compensation award for those senior officers under the Annual Executive Incentive Compensation Plan;
7. Retains any compensation consultants to assist in the evaluation of senior executive compensation and benefits; and
8. Oversees management's administration of supplemental retirement and other benefit arrangements, compensation agreements and severance agreements for executive officers.

Nominating and Corporate Governance Committee**Members**

Messrs. Leroy, Lohman, Renna and Thomas and Mrs. Tatlock

Number of Meetings Last Year

Four

Primary Functions

1. Recommends nominees for election as members of the Board of Directors;
2. Recommends directors for membership on the Audit Committee, Compensation and Stock Option Committee and Nominating and Corporate Governance Committee, including their Chairmen;
3. Recommends directors and executive officers for membership on other committees established by the Board of Directors;
4. Recommends compensation arrangements for non-employee directors;
5. Develops and recommends a set of corporate governance principles designed to foster an effective corporate governance environment;
6. Administers our 2002 Non-Employee Director Stock Option Plan and the Stock Plan for Non-employee Directors;
7. Reviews the charters of Board committees; and
8. Manages the performance review process of the Board, its committees and management.

Corporate Responsibility Committee

Members	Dr. Ewers, Messrs. Hays, Wilson and Mr. Clarkson Hine (Vice President-Corporate Communications)
Number of Meetings Last Year	Four
Primary Functions	Reviews and recommends to the Board policies on the Company's responsibilities to its employees and the community, such as: employee safety, diversity and equal opportunity; philanthropic activities; and the effect of Company operations on the environment.

Nomination Process

The primary functions of the Nominating and Corporate Governance Committee and a list of the Committee members (all of whom have been determined by the Board to be independent as defined by the New York Stock Exchange Listing Rules) are provided above. The Nominating and Corporate Governance Committee Charter in its entirety and an updated list of the Committee members is available on the Company's website at www.fortunebrands.com.

The Nominating and Corporate Governance Committee establishes the process by which the Board of Directors exercises its duties for overseeing the performance of the Company's management for the benefit of its stockholders and the maximization of stockholder value. Specific duties and responsibilities of the Nominating and Corporate Governance Committee include annually assessing the size and composition of the Board, defining

director qualifications as well as criteria for director independence and the selection of director candidates to be recommended to the Board.

The Committee, when identifying and evaluating candidates, first determines whether there are any evolving needs of the Board that require an expert in a particular field to fill that need. The Committee then may retain a third-party search firm to locate candidates that meet the needs of the Board at that time. The firm provides information on a number of candidates, which the Committee discusses. The Committee chair and some or all of the members of the Committee will interview potential candidates that are deemed appropriate. If the Committee determines that a potential candidate meets the needs of the Board, has the qualifications, and meets the standards set forth in the Company's Corporate Governance Principles, it will vote to recommend to the Board of Directors the nomination of the candidate.

The policy of the Nominating and Corporate Governance Committee is to consider director candidates recommended by stockholders if properly submitted to the Nominating and Corporate Governance Committee. Stockholders wishing to recommend persons for consideration by the Nominating and Corporate Governance Committee as nominees for election to the Board of Directors can do so by writing to the Secretary of Fortune Brands, Inc. at 300 Tower Parkway, Lincolnshire, Illinois 60069. Recommendations must include the proposed nominee's name, biographical data and qualifications as well as a written statement from the proposed nominee consenting to be named as a nominee and, if nominated and elected, to serve as a director. Our Restated Certificate of Incorporation also contains a procedure for direct nomination of directors by stockholders (see page 28 of this Proxy Statement). The Nominating and Corporate Governance Committee will then consider the candidate and the candidate's qualifications. The Committee may contact the stockholder making the nomination to discuss the qualifications of the candidate and the reasons for making the nomination. The Committee may then interview the candidate if the Committee deems the candidate to be appropriate. The Committee may use the services of a third-party search firm to provide additional information about the candidate prior to making a recommendation to the Board.

The Nominating and Corporate Governance Committee believes that it is necessary for our directors to possess many qualities and skills. When searching for new candidates, the Committee considers the evolving needs of the Board and looks for candidates that fill any future gap. The Committee believes that all directors must possess a considerable amount of business management and educational experience as well as meet the standards established by the Committee pursuant to the Company's Corporate Governance Principles. In developing these standards, the Committee considers issues of judgment, diversity, background, stature, conflicts of interest, integrity, ethics and commitment to the goal of maximizing stockholder value. In considering candidates for the Board, the Nominating and Corporate Governance Committee considers the

entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

The Committee's nomination process for stockholder-recommended candidates and all other candidates is designed to ensure that the Committee fulfills its responsibility to recommend candidates that are properly qualified to serve the Company for the benefit of all of its stockholders, consistent with the standards established by the Committee under the Company's Corporate Governance Principles.

Director Compensation

Cash Compensation. Each non-employee director of Fortune Brands, Inc. is paid an annual fee of \$50,000 for services as a director and an additional \$1,000 for each committee meeting attended. Members of the Audit Committee also receive an additional \$7,500 for service on the Audit Committee. Messrs. Lohman and Thomas, Mrs. Tatlock and Dr. Ewers receive an additional \$15,000 for service as a chairperson of the Compensation and Stock Option, Audit, Nominating and Corporate Governance and Corporate Responsibility committees, respectively.

The Company has an agreement with Mr. Lohman to defer payment of the fees to which he is entitled as a director, including any fees for committee service, until the January following his retirement from the Board. Interest on the deferred amounts is accrued quarterly based on the average quarterly treasury bill rate.

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Insurance. Directors traveling on Company business are covered by our business travel accident insurance policy which generally covers all Company employees and directors. We also pay the cost of group life insurance coverage for non-employee directors. The annual cost of group life insurance for 2003 was less than \$2,300 for each of our current non-employee directors.

2002 Non-Employee Director Stock Option Plan. Each non-employee director who was first elected to the Board of Directors after April 30, 1997 is eligible to receive an annual grant of nonqualified stock options to purchase 2,500 shares of our common stock under our stockholder-approved 2002 Non-Employee Director Stock Option Plan. Under the terms of the 2002 Non-Employee Director Stock Option Plan:

- (i) the option price per share shall not be less than fair market value at the time the option is granted;
- (ii) the option does not become exercisable until the holder has been a director for at least one year after the date of grant (except in the case of death or a change in control of Fortune Brands, Inc.) and may generally be exercised for 10 years from the date of grant;
- (iii) if the holder ceases to be a director by reason of death, disability or retirement after five or more years of service, the option will continue to be exercisable until the expiration date set forth in the option agreement, provided that an option may be exercised within one year from the date of death even though beyond the expiration date; and
- (iv) if the holder ceases to be a director for any other reason, the option shall terminate and cease to be exercisable 30 days after cessation of service, except in the event of a change in control of Fortune Brands, Inc.

The Nominating and Corporate Governance Committee may also grant option awards of less than 2,500 shares to reflect partial years of service by directors who are appointed after the date of the Company's annual stockholders meeting.

The 2002 Non-Employee Director Stock Option Plan provides that each option has a limited right that, in the event of a change in control of Fortune Brands, Inc., is exercised automatically unless the Nominating and Corporate Governance Committee determines that the limited right is exercisable at some other time. This limited right entitles the holder of the option to receive cash equal to the number of shares subject to the option multiplied by the difference between the exercise price per share and the greater of:

- (i) the highest price per share paid for shares of our common stock acquired in the change in control; and
- (ii) the highest market value of shares of our common stock during the 60-day period beginning on the date of the change in control.

The option will be canceled to the extent of the exercise of the limited right.

Retirement Benefit for Directors Elected Prior to April 30, 1997. Each non-employee director who was elected to the Board of Directors prior to April 30, 1997 and who voluntarily retires or decides not to stand for re-election as a director will receive an annual retirement benefit equal to the annual director's fee in effect at the time of retirement. This amount will be paid for as many years as the director served on the Board. This amount does not include fees for committee service or for service on subsidiaries' boards of directors. The retirement benefit is payable beginning in the year in which such director retires or attains age 65, whichever occurs later. In the event of the director's death after retirement, the benefit continues to be paid to the director's beneficiary until payments have been made for as many years as the director served on the Board. The benefit will be paid to the director's beneficiary if the director dies prior to retirement and has completed at least three years of service.

The Non-Employee Director Stock Option Plan (the predecessor to the 2002 Non-Employee Director Stock Option Plan) was adopted as a substitute for the retirement benefit program described above. Directors elected prior to April 30, 1997 had the option to continue to receive years of credit for this retirement benefit or to receive an annual option grant under the Non-Employee Director Stock Option Plan. All of the current directors receive an annual option grant under the 2002 Non-Employee Director Stock Option Plan and there are no directors accruing additional years of credit under the retirement benefit program.

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Stock Plan for Non-employee Directors. Each non-employee director receives 550 shares of our common stock each year under the Stock Plan for Non-employee Directors. The Company has an agreement with Mr. Lohman to defer payment of these shares until the January following his retirement from the Board. While receipt of the shares is deferred, dividends are also deferred and accrue interest quarterly from the dates such dividends would have been paid at a rate equal to the average quarterly treasury bill rate.

Matching Gifts. Directors are covered under our matching gift program. Under this program, the Company makes a 100% match of gifts totaling up to \$5,000 annually by the director to an eligible charitable institution.

Charitable Award Program. Each current director who is not an officer or employee of the Company is covered under our charitable award program for non-employee directors. Under the program, the Company makes contributions of up to \$500,000 for each director to a charitable, educational or other qualified organization designated by the director. The contribution is made after the death of the director. The Company has life insurance to reimburse itself for the \$500,000 contributions to be made for each director except for Messrs. Reyes and Leroy. For Messrs. Reyes and Leroy, the Company annually records a \$100,000 expense until the obligation is fully reserved. Mr. Wilson does not participate in this program. On December 9, 2003, the Board of Directors approved the elimination of this program. Directors first elected on or prior to December 9, 2003 will still be covered under this program.

Section 16(a) Beneficial Ownership Reporting Compliance

Each director and executive officer of the Company who is subject to Section 16 of the Exchange Act is required to file with the SEC reports regarding their ownership and changes in ownership of our equity securities. Reports received by the Company indicate that all these directors and executive officers have filed all requisite reports with the SEC on a timely basis during or for 2003.

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EXECUTIVE COMPENSATION

The following table summarizes all compensation earned by the five most highly compensated executive officers during each of our past three fiscal years:

Summary Compensation Table

Annual Compensation	Long-Term Compensation
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Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Awards	Payouts	All Other Compensation (\$)(3)
					Securities Underlying Options/SARs(#)	LTIP Payout (\$)(2)	
Norman H. Wesley Chairman of the Board and Chief Executive Officer	2003	1,000,000	1,217,200	309,866	190,000	3,876,192	270,586
	2002	950,000	1,548,000	359,188	190,000	1,611,039	201,300
	2001	900,000	722,200	338,871	190,000	721,911	160,847
Craig P. Omtvedt Senior Vice President and Chief Financial Officer	2003	515,000	405,614	149,107	95,000	1,676,467	113,255
	2002	495,000	521,900	83,593	95,000	698,117	94,496
	2001	475,000	275,000	126,588	95,000	510,399	89,438
Mark A. Roche Senior Vice President, General Counsel and Secretary	2003	422,000	302,152	96,914	60,000	1,036,867	87,668
	2002	405,000	388,200	81,454	60,000	429,610	134,361
	2001	390,000	184,100	107,270	60,000	308,068	119,833
Mark Hausberg Senior Vice President Finance and Treasurer	2003	305,000	218,380	67,796	28,000	474,805	66,120
	2002	295,000	282,800	59,902	30,000	198,704	54,778
	2001	285,000	134,500	44,654	30,000	128,767	43,301
Christopher J. Klein Senior Vice President Strategy and Corporate Development	2003	237,371	250,600	0	60,000	339,167	23,432

Footnotes to Summary Compensation Table

- (1) The executive officers named above (except for Mr. Klein) are not covered under the Company's tax qualified defined benefit pension plan and contributions for them to the Company's defined contribution plan are reduced due to Internal Revenue Code limitations. As such, their pension benefits are provided under our Supplemental Plan and the amounts that we are not able to contribute on their behalf to our defined contribution plan are also credited to them under the Supplemental Plan. We make after-tax contributions to trusts to fund these benefits. We also fund the tax withholding associated with these contributions in order to provide the benefit outlined in the Pension Plan table on page 16. These arrangements have been approved by stockholders.

The amount we list above in the "Other Annual Compensation" column includes the following amounts provided to the executive for tax withholding:

	2003	2002	2001
Norman H. Wesley	\$203,520	\$309,166	\$324,805
Craig P. Omtvedt	103,024	48,227	102,832
Mark A. Roche	68,555	60,108	93,829
Mark Hausberg	54,679	50,980	39,027

Also included in the Other Annual Compensation column for 2003 are the following dividends paid on performance awards under the Company's Long-Term Incentive Plans: \$106,346 for Mr. Wesley; \$46,083 for Mr. Omtvedt; \$28,359 for Mr. Roche and \$13,117 for Mr. Hausberg.

- (2) The amount we list in the LTIP Payout column is the value of performance awards for the performance period that ended in the year reported. For example, the amount for 2003 includes the performance awards paid in 2004 based upon targets achieved for the 2001-2003 period. Executive officers who meet certain internal share ownership guidelines are eligible to receive the performance awards, which are denominated in shares, in cash. For the award paid in 2004, the full amount was paid in cash to Messrs. Wesley, Omtvedt, Roche and Hausberg. Mr. Klein received his full award in shares.
- (3) The amount we list in the All Other Compensation column includes: (a) Company contributions to the tax qualified defined contribution plan of the Company, (b) supplemental profit-sharing amounts under the Company's Supplemental Plan, and (c) the value of premiums paid by the Company under split-dollar life insurance and other life insurance programs. We describe these benefits below.
- (a) *Defined Contribution Plan Contributions.* Company contributions for 2003 to the Company's tax qualified defined contribution plan were \$21,980 for each of Messrs. Wesley, Omtvedt, Roche and Hausberg and \$18,293 for Mr. Klein.
- (b) *Supplemental Plan.* The Supplemental Plan credits certain executives with amounts that would have been contributed to their accounts under the profit-sharing formula set forth in our tax qualified defined contribution plan but could not be contributed because of Internal Revenue Code limitations. Supplemental profit-sharing credits earned under our Supplemental Plan for 2003 were: \$225,828 for Mr. Wesley; \$80,493 for Mr. Omtvedt; \$58,688 for Mr. Roche; \$37,295 for Mr. Hausberg; and \$3,594 for Mr. Klein.

In order to fund the Company's obligations to provide these supplemental profit-sharing benefits under the Supplemental Plan, the Company made contributions in 2003 to fund supplemental profit-sharing credits earned for 2002 in the following amounts under trust funding arrangements approved by stockholders: \$95,920 for Mr. Wesley; \$37,139 for Mr. Omtvedt; \$25,351 for Mr. Roche; and \$14,955 for Mr. Hausberg. The Company funds only an amount sufficient to provide the expected after-tax profit-sharing benefit. These contributions to the trusts are not listed in the All Other Compensation column, because they were made to fund supplemental profit-sharing credits that are already disclosed in the All Other Compensation column.

The Company made additional contributions in 2003 in the following amounts to the trusts to fund its obligations for supplemental pension benefits under the Company's Supplemental Plan: \$240,454 for Mr. Wesley, \$128,571 for Mr. Omtvedt, \$69,288 for Mr. Roche and \$60,979 for Mr. Hausberg. These contributions are not listed in the All Other Compensation column because they were made to fund supplemental retirement benefits already disclosed in the Pension Plan table on page 16.

- (c) *Split-Dollar Life Insurance Program.* The Company provides a split-dollar life insurance program for certain executive officers, including Messrs. Wesley, Omtvedt, Roche and Hausberg. All insurance proceeds from the split-dollar life insurance program that exceed the executive's death benefit are payable to the Company, and the program is designed for the Company to recover at least its aggregate premium cost. The Company elected to prepay its share of the full premiums for the policies covering the executives identified above in two annual installments when the executives first became covered under the program. Mr. Wesley became covered under the program in 1999 and Messrs. Omtvedt, Roche and Hausberg became covered in 1997. Additional split-dollar life insurance was obtained in 1998 and 2000 for Mr. Omtvedt and in 2001 for Mr. Roche in order to provide for increased death benefits attributable to salary increases. The Company's share of the premiums for the increased insurance obtained for Mr. Omtvedt in 2000 was paid in two annual installments, in 2000 and 2001. The Company's share of the premiums for the insurance obtained for Mr. Roche in 2001 was also paid in two installments, in 2001 and 2002.

The amounts set forth in the All Other Compensation column for 2001 for Messrs. Omtvedt and Roche and for 2002 for Mr. Roche include the dollar value of insurance premiums paid by the Company in those years for split-dollar insurance, as reduced by the projected refund to the Company on the maturity of the policy calculated on an actuarial basis.

Additional Life Insurance Program. The Company provides an additional life insurance program for certain executive officers, including Messrs. Wesley, Omtvedt, Roche, Hausberg and Klein. The amounts set forth in the All Other Compensation column for

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2003 for Messrs. Wesley, Omtvedt, Roche, Hausberg and Klein include the dollar value of insurance premiums paid by the Company in 2003. These amounts are: \$21,378 for Mr. Wesley; \$9,382 for Mr. Omtvedt; \$5,600 for Mr. Roche; \$5,445 for Mr. Hausberg; and \$1,545 for Mr. Klein. In addition, the amounts set forth in the All Other Compensation column for 2003 include income of \$1,400 for each of Messrs. Wesley, Omtvedt, Roche and Hausberg related to reimbursement of long-term disability insurance premiums.

The following table provides information on grants of stock options made in 2003:

Option/SAR Grants in Last Fiscal Year

Name	Individual Grants	Percent of Total Options/SARs Granted	Exercise Price (\$/SH)
Mr. Wesley	190,000	6.6	57.46
Mr. Omtvedt	95,000	3.3	57.46
Mr. Roche	60,000	2.1	57.46
Mr. Hausberg	28,000	1.0	57.46

Officers, including a non-qualified defined contribution plan, a supplemental executive retirement plan, a defined benefit program (which has been discontinued), and a separate retirement plan applicable to Indonesian employees. The programs are described in detail below under the heading "Benefit Programs." Further, Messrs. Moffett and Adkerson are also entitled to certain severance benefits pursuant to their employment agreements. Executive officers are entitled to certain benefits in the event of a change in control of the Company. These additional severance and benefits are described below under the heading "Potential Payments upon Termination or Change in Control."

Guidelines

It is important for our executive officers to align their interests with the long-term interests of our stockholders. To encourage long-term stock accumulation through the grant of equity incentives to our executive officers, we did not mandate that our executive officers maintain a specified level of stock ownership in our company until 2006. In January 2006, after consulting with our board of directors, the corporate personnel committee adopted stock ownership guidelines applicable to our executive officers. These guidelines will be phased in over a period of four years. For information regarding the director stock ownership guidelines, see the "Director Compensation" section below.

Under the guidelines, the stock value is calculated annually based on the one-year and five-year trailing average monthly closing price of our common stock currently owned by the executive officers are counted for purposes of the stock ownership guidelines. Shares held in employee benefit plans, individual retirement accounts, shares issuable upon the vesting of restricted stock units and shares held in certain trusts. Under the guidelines, each of Messrs. Moffett and Adkerson will be required to own Company stock valued at five times his base salary, and our other executive officers will be required to own Company stock valued at three times their base salaries. As of December 31, 2006, each of our executive officers has reached their target ownership level, except Mark J. Johnson.

Section 162(m) Internal Revenue Code

Under Section 162(m) of the Internal Revenue Code, a public company's annual tax deduction for compensation paid to each of its most highly compensated executive officers. Qualified performance-based compensation is excluded from this deduction limitation if certain

The committee's policy is to structure compensation awards that will be deductible where doing so will further our executive compensation programs. The committee also considers it important to retain flexibility to design awards that recognize a full range of criteria important to our success, even where compensation payable under the awards is not fully deductible.

With respect to the stock options previously granted, annual incentive awards under our annual incentive plan, and the exclusion for the exclusion from the deduction limitation under Section 162(m). With the exception of a portion of the compensation for our executive chairman and our chief executive officer, the committee anticipates that the remaining components of compensation that do not qualify for an exclusion from Section 162(m) should not exceed \$1 million in any given year and should qualify for deductibility.

Committee Report

The committee of our board of directors has reviewed and discussed with management the Compensation required by Item 402(b) of Regulation S-K.

ate Personnel Committee:

Chairman

on

izes the total compensation paid to or earned by our chief executive officer, our chief financial officer, and highly compensated executive officers other than the chief executive officer and chief financial officer. The Machribie, who served as the President Director of PT Freeport Indonesia until he retired on July 1, 2006 (executive officers). The amounts represented in the "Stock Awards" and "Option Awards" columns reflect the

AS 123(R), and do not necessarily equate to the income that will ultimately be realized by the executives for and 2006, we paid the compensation of Messrs. Arnold, Johnson and Machribie, and we paid the compensation Adkerson and Ms. Quirk through an allocation arrangement under a services agreement with FM Services of FCX (the Services Company). Please refer to "Certain Transactions" in Item 13 for more details. For a payment agreements between the Company and Messrs. Moffett and Adkerson, see "Compensation Discussion" and "Potential Payments upon Termination or Change in Control" below.

Summary Compensation Table

Salary (1)	Bonus	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Nonqualified Deferred Earnings (5)	All Other Compensation (6)	Total
2,500,000	---	---	\$5,460,418	\$27,740,000	\$1,095,525	\$2,331,292	\$39,127,235
2,500,000	---	---	7,989,082	22,043,500	889,151	1,448,752	34,870,485
1,250,000	---	\$21,690,000	3,598,169	3,532,000	322,896	1,717,583	32,110,648
1,250,000	---	18,048,000	4,796,046	2,110,000	1,153,887	833,326	28,191,259
300,000	---	1,575,000	1,146,369	1,668,100	5,842	120,596	4,815,907
300,000	---	655,125	1,126,951	1,679,500	4,316	72,946	3,838,838

Individual
Grants
—

400,000	---	787,500	1,266,189	2,546,300	23,277	633,359	5,656,625
400,000	\$120,000(7)	655,125	1,307,691	1,890,500	20,197	600,310	4,993,823

400,000	---	--	1,133,056	2,453,200	8,307	189,137	4,183,700
400,000	---	655,125	1,107,521	1,415,750	6,788	201,510	3,786,694

212,500	---	---	2,247,099	5,270,000	---	1,248,534	8,978,133
425,000	---	---	1,527,856	2,872,500	---	477,719	5,303,075

06, Messrs. Moffett and Adkerson and Ms. Quirk also provided services to and received compensation from
ion Co. (McMoRan). For Ms. Quirk, 25% of her salary

Although the amounts reflected herein represent only the portion allocated to us.

Under the annual incentive plan, our executives may elect to receive restricted stock units in lieu of all or a portion of their annual cash bonus under the plan, and the RSUs are awarded at a 50% premium in order to compensate for risk. Each of Mr. Arnold and Ms. Quirk elected to participate in the program with respect to their 2006 annual cash incentive under the annual incentive plan as follows:

RSUs received on 01/31/07	Percentage of Cash Bonus taken in RSUs	Grant Date Market Value of RSUs
383,893	100%	\$21,690,000
27,876	50%	1,575,000
13,938	25%	787,500

The amounts shown reflect the compensation cost recognized in 2006 for restricted stock units in accordance with FAS 123(R). In 2007, the entire value of the restricted stock units granted in 2007 was charged to expense during 2006. For information relating to the assumptions made by us in valuing these awards for 2006, refer to Note 7 of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. For 2005, the amounts reflect the pro forma amounts that would have been recognized in 2005 had FAS 123(R) been effective as of January 1, 2005.

The amounts shown reflect the compensation cost recognized in 2006 for stock options in accordance with FAS 123(R), which is included in the amount of all stock-based compensation in earnings based on the related vesting schedule. For additional information relating to the assumptions made by us in valuing these awards for 2006, refer to Note 7 of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. For 2005, the amounts reflect the pro forma amounts that would have been recognized in 2005 had FAS 123(R) been effective as of January 1, 2005.

The amounts shown reflect the annual cash incentive payments received by our named executive officers under our annual incentive plan for the years ended 2006 and 2005, and the cash payout of units granted under our Long-Term Performance Incentive Plan that vested on the years ended 2006 and December 31, 2005, as follows:

Year	Annual Incentive Plan Cash Payment	Long-Term Performance Incentive Plan Payout
2006	\$23,325,000	\$4,415,000
2005	19,406,000	2,637,500
2006	--	3,532,000
2005	--	2,110,000
2006	1,050,000	618,100
2005	1,310,250	369,250

Individual
Grants
—

2006	1,575,000	971,300
2005	1,310,250	580,250
2006	2,100,000	353,200
2005	1,310,250	105,500
2006	1,280,000	3,990,000
2005	2,134,000	738,500

not include the restricted stock units that the executive officer elected to receive in lieu of cash payments, as table under “Stock Awards” and discussed in footnote (2) above.

the change in actuarial value of our cash balance program, (b) the change in actuarial value of our executive retirement plan for Messrs. Moffett and Adkerson, and (c) above-market or preferential deferred compensation earnings as set forth in the table below. See the section titled “Retirement Benefit” below for more information.

Year	Cash Balance Plan	SERP	Above- Market Earnings
2006	--	\$860,661	\$234,864
2005	--	702,382	186,769
2006	\$4,712	226,761	91,423
2005	4,365	1,082,379	67,143
2006	3,137	--	2,705
2005	2,907	--	1,409
2006	6,892	--	16,385
2005	6,386	--	13,811
2006	6,307	--	2,000
2005	5,844	--	944

Mr. Adkerson and Ms. Quirk, includes (a) our payment of taxes in connection with certain benefits we provide, (b) matching gifts under the matching gifts program, (c) personal financial and tax advice under the Company's personal expenses incurred by the Company, including fuel costs, excise taxes and any additional charges, in connection with the executive's personal use of fractionally owned Company aircraft, which the Company requires for business purposes for safety reasons, (e) personal use of Company facilities and personnel, (f) club memberships, (g) personal use of Company security services, (h) our contributions to defined contribution plans, (i) our premium payments for universal life insurance policies, (j) director fees and (k) dividends received on restricted stock units upon

Matching Gifts	Financial and Tax Advice	Aircraft Usage	Facilities and Personnel	Club Memberships	Security and Cars	Plan Contributions	Ins. Premiums	Director Fees	Dividends on RSUs
\$40,000	\$20,000								
40,000	20,000								