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FORTUNE BRANDS INC
Form 11-K
June 28, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(D) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001

Commission file number 1-9076

Full Title of the Plan:

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

Name of the issuer of the securities held pursuant to the plan
and the address of its principal executive office:

FORTUNE BRANDS, INC.

300 Tower Parkway
Lincolnshire, Illinois 60069

=====

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2001 AND 2000

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

INDEX TO FINANCIAL STATEMENTS

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Note: Supplemental schedules required by the Employee Retirement Income Security Act that have not been included herein will be filed by the Fortune Brands, Inc. Savings Plans Master Trust.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Corporate Employee Benefits Committee of
Fortune Brands, Inc.

In our opinion, the accompanying statements of net assets available for plan benefits and the related statements of changes in net assets available for plan benefits present fairly, in all material respects, the net assets available for plan benefits of the Fortune Brands Retirement Savings Plan (the "Plan") at December 31, 2001 and 2000, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

May 24, 2002

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
AS OF DECEMBER 31, 2001 AND 2000

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(IN THOUSANDS)

| | 2001 | 2000 |
|--|-----------|-----------|
| Assets: | | |
| Beneficial interest in Fortune Brands, Inc. Savings Plans Master Trust net assets | \$545,956 | \$605,585 |
| Receivables: | | |
| Company contributions | 4,930 | 6,836 |
| Participant contributions | 22 | 257 |
| | ----- | ----- |
| Total assets | 550,908 | 612,678 |
| | ----- | ----- |
| Net assets available for Plan benefits | \$550,908 | \$612,678 |
| | ===== | ===== |

The accompanying notes are an integral part of the financial statements.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(IN THOUSANDS)

| | 2001 | 2000 |
|---|-----------|-----------|
| Additions: | | |
| Company contributions | \$ 14,433 | \$ 16,263 |
| Participant contributions | 32,163 | 33,615 |
| Transfers to the Plan (Note 5) | 163 | 2,770 |
| | ----- | ----- |
| Total additions | 46,759 | 52,648 |
| Deductions: | | |
| Allocated share of Fortune Brands, Inc. Savings Plans Master Trust investment losses | 33,026 | 26,411 |
| Benefits paid to participants | 54,713 | 67,926 |
| Transfers from the Plan (Note 5) | 20,790 | - |
| | ----- | ----- |
| Total deductions | 108,529 | 94,337 |

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| | | |
|---|------------|------------|
| Decrease in net assets | (61,770) | (41,689) |
| | ----- | ----- |
| Net assets available for Plan benefits, beginning of year | 612,678 | 654,367 |
| | ----- | ----- |
| Net assets available for Plan benefits, end of year | \$ 550,908 | \$ 612,678 |
| | ===== | ===== |

The accompanying notes are an integral part of the financial statements.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PLAN

GENERAL

The Fortune Brands Retirement Savings Plan (the "Plan") is designed to encourage and facilitate systematic savings and investment by eligible employees. Fortune Brands, Inc. ("Fortune") and each of its operating company subsidiaries participating in the Plan are referred to collectively as the "Companies" and individually as a "Company". Operating company subsidiaries include: MasterBrand Industries, Inc. ("MasterBrand"), ACCO World Corporation ("ACCO"), Acushnet Company ("Acushnet"), and Jim Beam Brands Worldwide, Inc. ("Beam"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

The following provides a brief description of the Plan. For a complete description of the Plan, participants should refer to the specific provisions in the Plan document or to the Prospectus/ Summary Plan Description, each of which is available from the Plan Administrator at 300 Tower Parkway, Lincolnshire, Illinois 60069.

The financial statements present the net assets available for Plan benefits as of December 31, 2001 and 2000 and the changes in net assets available for Plan benefits for the years then ended. The assets of the Plan are included in a pool of investments known as the Fortune Brands, Inc. Savings Plans Master Trust (the "Master Trust"), along with the assets of the Fortune Brands Hourly Employee Retirement Savings Plan and the Future Brands LLC Retirement Savings Plan. The Master Trust investments are administered by The Fidelity Management Trust Company (the "Trustee").

CONTRIBUTIONS

The Plan is a defined contribution plan. Contributions are held by the Trustee and accumulated in separate participant accounts. Participants may generally make tax deferred contributions under Section 401(k) of the Internal Revenue Code (the "Code") of up to 21% of eligible compensation, subject to lower limits for highly compensated employees of Fortune and certain participating Companies. Participants' annual tax deferred contributions are limited by the Code to \$10,500 in both 2001 and 2000.

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Participants of MasterBrand and its participating operating subsidiaries ("MasterBrand Participating Employers") may also make after-tax contributions, but the sum of tax deferred contributions and after-tax contributions may not exceed 21% of eligible compensation. Each MasterBrand Participating Employer, other than Schrock Cabinet Division ("Schrock") and NHB Industries, Inc., formerly NHB Holdings, Inc., ("NHB"), provides a matching contribution equal to 50% of the participant's tax deferred contributions and after-tax contributions, not to exceed 6% of eligible compensation. Schrock provides a matching contribution of 50% of the participant's tax deferred and after-tax contributions up to 5% of eligible compensation and an additional 50% of the participant's tax deferred and after-tax contributions up to 3% of eligible compensation. NHB provides a matching contribution of 30% of the participant's tax deferred and after-tax contributions up to 4% of eligible compensation.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

ACCO and its participating operating subsidiaries ("ACCO Participating Employers") provide a matching contribution equal to 30% of the participant's tax deferred contributions, not to exceed 6% of eligible compensation. Acushnet and its participating operating subsidiaries ("Acushnet Participating Employers") provide a matching contribution of 50% of the participant's tax deferred contributions up to 5% of eligible compensation and an additional 50% of the participant's tax deferred contributions up to 2% of eligible compensation. Beam and its participating operating subsidiaries ("Beam Participating Employers") do not provide matching contributions. Fortune provides a matching contribution equal to 50% of the participant's tax deferred contributions, not to exceed 6% of eligible compensation.

Profit-sharing contributions are made by Fortune and certain participating operating subsidiaries and allocated to their participants in proportion to eligible compensation. Acushnet Participating Employers, MasterBrand Participating Employers, and Boone International, Inc. ("Boone"), an ACCO Participating Employer, do not provide an annual profit-sharing contribution. Fortune contributes on an annual basis, 1/6 of 1% of its Adjusted Income from Continuing Operations (as defined in the Plan). The ACCO Participating Employers and Beam Participating Employers make a determination each year as to the amount of their profit-sharing contribution. Profit-sharing contributions are subject to certain Plan and statutory limitations.

Participants may direct the investment of their tax deferred contributions, after-tax contributions, matching contributions, profit-sharing contributions, if any, and their Plan account balances in the available investment funds, excluding the Gallaher ADR Fund.

Participant account balances are maintained to reflect each participant's beneficial interest in the Plan's funds. Participant account balances are increased by participant and Company contributions (including rollovers from other plans) and decreased by the amount of withdrawals and distributions. Income and losses on Plan assets and certain administrative expenses are allocated to participants' accounts based on the ratio of each

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participant's account balance invested in an investment fund to the total of all participants' account balances invested in that fund as of the preceding valuation date.

VESTING

Participants are immediately vested in their own contributions plus earnings thereon. Vesting in the Companies' matching contributions plus earnings thereon occurs after one year of service. Vesting in the Companies' annual profit-sharing contribution plus actual earnings thereon is based on the earliest of the following occurrences: (1) retirement; (2) death; (3) disability; (4) attainment of age 65; (5) termination of employment without fault, or (6) years of service (as summarized in the schedule below):

| NUMBER OF FULL YEARS OF SERVICE * | FORTUNE | BEAM | ACCO |
|-----------------------------------|---------|------|------|
| | ----- | ---- | ---- |
| Less than 1 | 0% | 0% | 0% |
| 1 but less than 2 | 20% | 0% | 20% |
| 2 but less than 3 | 40% | 0% | 40% |
| 3 but less than 4 | 60% | 20% | 60% |
| 4 but less than 5 | 80% | 40% | 80% |
| 5 but less than 6 | 100% | 60% | 100% |
| 6 but less than 7 | 100% | 80% | 100% |
| 7 or more | 100% | 100% | 100% |

* Acushnet, MasterBrand and Boone Participating Employers do not provide an annual profit-sharing contribution.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

FORFEITURES

Company contributions forfeited by nonvested terminated participants are retained by the Plan and used to reduce subsequent Company contributions. If a terminated participant returns to the Plan within a specified period of time (generally 5 years), the participant's previously forfeited amount will be reinstated to the participant's account.

LOANS

A participant may apply for a loan of at least \$1,000 from the vested portion of the participant's account balance in an amount which does not exceed one-half of the participant's vested balance, provided that the loan also does not exceed \$50,000. Any loans applied for are also reduced by any other loan outstanding under the Plan within the previous twelve months. The term of any loan shall not exceed five years, unless the loan is related to the purchase of the participant's principal residence. No more than one home residence loan and one loan for any other purpose may be outstanding at any one time.

A new loan may not be applied for until 30 days after any prior loan is repaid in full. Each loan bears a rate of interest equal to the prime rate on the last day of the previous quarter at the time the loan is made, as quoted in the Wall Street Journal. Each loan must be collateralized by a

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portion of the participant's account balance and evidenced by a written obligation payable to the Trustee which is invested in the Loan Fund. Repayment is made by payroll deduction so that the loan is repaid over the term of the loan in substantially level installments not less frequently than quarterly.

DISTRIBUTIONS AND WITHDRAWALS

Benefits are payable from a participant's account under the Plan provisions, upon a participant's death, retirement or other termination of employment in a lump sum or in installment payments. The Plan also permits withdrawals to be made by participants who have incurred a "hardship" as defined in the Plan or after attainment of age 59 1/2.

Distributions and withdrawals to which a participant is entitled are those, subject to certain eligibility and forfeiture provisions, that can be provided by the aggregate of employer and employee contributions and the income thereon (including net realized and unrealized investment gains and losses) allocated to such participant's account. Distributions and withdrawals are recorded when paid.

OTHER

Although they have not expressed any intent to do so, the Companies have the right under the Plan to discontinue contributions at any time and Fortune, as Plan Sponsor and Administrator, has the right to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

INVESTMENT VALUATION AND INCOME

The Master Trust's investments in securities (bonds, debentures, notes and stocks) traded on a national securities exchange are valued at the last reported sale price on the last business day of the year; securities traded in the over-the-counter market are valued at the last reported bid price; and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices. Participations in collective trust funds are stated at the Master Trust's beneficial interest in the aggregate fair value of assets held by the fund, as reported by the fund's manager.

Purchases and sales of securities are recorded on a trade-date basis. Gains or losses on sales of securities are based on average cost. Dividend income

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is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

The ratio of the Plan's assets to the fair value of all assets held in each fund in the Master Trust is used to allocate interest income, dividend income, realized gains (losses) and unrealized appreciation (depreciation) in market value of investments on a monthly basis.

Certain expenses incurred by the Plan are netted against earnings prior to allocation to participant accounts. These include investment manager, trust, and recordkeeper expenses.

3. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for Plan benefits as stated in the financial statements to Form 5500 at December 31, 2001 and 2000 (in thousands):

| | 2001 | 2000 |
|---|-----------|-----------|
| Net assets available for Plan benefits as stated in the accompanying financial statements | \$550,908 | \$612,678 |
| Less: Amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan | 98,313 | 104,219 |
| | ----- | ----- |
| Net assets available for Plan benefits as stated in Form 5500 | \$452,595 | \$508,459 |
| | ----- | ----- |

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The following is a reconciliation of benefits paid to participants as stated in the financial statements to the Form 5500 at December 31, 2001 and 2000 (in thousands):

| | 2001 | 2000 |
|--|-----------|-----------|
| Benefits paid to participants as stated in the financial statements | \$ 54,713 | \$ 67,926 |
| Add: Amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain | 98,313 | 104,219 |

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| | | |
|--|-----------|-----------|
| in the Plan as of current year-end | | |
| Less: Amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan as of prior year-end | 104,219 | 136,994 |
| | ----- | ----- |
| Benefits paid to participants as stated in Form 5500 | \$ 48,807 | \$ 35,151 |
| | ===== | ===== |

4. PLAN AMENDMENTS

The Plan was amended effective December 10, 2001 to comply with new regulations on the minimum distribution requirements of Section 401(a)(9) of the Internal Revenue Code.

The Plan was amended effective April 1, 2001 to allow participants transferred from a Beam participating employer to Future Brands LLC to receive withdrawals and obtain loans.

The Plan was amended effective January 1, 2001 to provide that participant account additions made in excess of the maximum may be distributed to participants or former participants if permitted under regulations issued by the Secretary of Treasury pursuant to the provisions of Section 415 of the Internal Revenue Code.

The Plan was amended effective January 1, 2001 to permit participation in profit sharing for all Fortune employees who are employed to work at least 20 hours per week.

The Plan was amended effective January 1, 2001 to provide a matching contribution to NHB participants equal to 30% of the participant's tax deferred and after-tax contributions, not to exceed 4% of eligible compensation.

5. TRANSFERS TO AND FROM THE PLAN

During 2001, certain employees transferred from Beam to Future Brands, a joint venture between Beam and Vin & Sprit AB of Sweden. The value of participant accounts transferred to the Future Brands LLC Retirement Savings Plan on April 1, 2001 totalled \$20,759,274. The remaining transfers relate to transactions in the ordinary course of business between the Plan and the Fortune Brands Hourly Employee Retirement Savings Plan.

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FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. ASSETS HELD IN MASTER TRUST

The investments of the Master Trust are maintained under a trust agreement with the Trustee. The Plan had a total beneficial interest of approximately

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91.11% and 95.60% in the Master Trust's net assets at December 31, 2001 and 2000, respectively.

Master Trust assets at December 31, 2001 and 2000 are as follows (in thousands):

| | 2001 | 2000 |
|---|------------|------------|
| Interest and dividends receivable | \$ 511 | \$ 829 |
| Common stock - corporate: | | |
| Employer stock | 38,950 | 35,351 |
| Non-employer stock | 126,964 | 151,241 |
| U.S. Government securities | 11,080 | 18,830 |
| Corporate debt instruments | 16,202 | 18,601 |
| Registered investment companies | 340,987 | 354,237 |
| Collateralized promissory notes from participants | 16,254 | 16,635 |
| Interest bearing cash | 49,045 | 38,418 |
| | ----- | ----- |
| Total assets | 599,993 | 634,142 |
| | ----- | ----- |
| Administrative expenses payable | (786) | (679) |
| | ----- | ----- |
| Total net assets of the Master Trust available for benefits | \$ 599,207 | \$ 633,463 |
| | ===== | ===== |

Investments that represent 5% or more of the Master Trust's net assets are separately identified in the Master Trust filing.

The net appreciation (depreciation) in fair value of investments, interest income, dividend income, and administrative expenses related to the Master Trust for the years ended December 31, 2001 and 2000 is as follows (in thousands):

| | 2001 | 2000 |
|---|-------------|-------------|
| Net appreciation (depreciation) in fair value: | | |
| Common stock - corporate | \$ (14,308) | \$ (21,895) |
| U. S. Government securities | (34) | 1,640 |
| Corporate debt instruments | 402 | (154) |
| Registered investment companies | (24,973) | (13,708) |
| | ----- | ----- |
| Net depreciation in fair value of investments of the Master Trust | (38,913) | (34,117) |
| Interest income | 5,026 | 6,073 |
| Dividend income | 2,715 | 2,980 |
| Administrative expenses | (2,328) | (2,536) |
| | ----- | ----- |
| Total net loss of the Master Trust | \$ (33,500) | \$ (27,600) |
| | ===== | ===== |

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. RISKS AND UNCERTAINTIES

The Plan provides for various investment options in any combination of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in market value could materially affect participants' account balances and the amounts reported in the statement of net assets available for Plan benefits and the statement of changes in net assets available for Plan benefits.

8. USE OF ESTIMATES

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the changes in net assets available for benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

9. CREDIT RISKS

The Master Trust invests primarily in equity and fixed income funds. The fund managers invest in a large number of corporations, industries and other instruments in an attempt to limit exposure to significant loss. The funds maintain a diverse portfolio of common stock across various industry groups and a broad range of debt securities in terms of maturity and industry groups in order to maintain diversity in Master Trust investments. The Plan, however, is subject to risk of loss up to its proportionate share of such assets in the Master Trust.

10. TAX STATUS

The Internal Revenue Service ("IRS") issued a determination letter dated January 8, 1998 to Fortune stating that the Plan meets the requirements of Section 401(a) of the Code and that the Trust is exempt from federal income taxes under Section 501(a) of the Code. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is currently designed and operated in compliance with the applicable requirements of the Code. Generally, distributions and withdrawals under the Plan are taxable to Participants or their beneficiaries in accordance with Section 402 of the Code.

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS, CONTINUED

11. RELATED-PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by The Fidelity Management Trust Company. The Fidelity Management Trust Company is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for recordkeeping and investment management services amounted to \$1,398,262 and \$911,802 for the years ended December 31, 2001 and 2000, respectively. In addition, fees payable to the trustee as of December 31, 2001 and 2000 were \$188,928 and \$191,635, respectively.

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporate Employee Benefits Committee of Fortune Brands, Inc. has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

FORTUNE BRANDS RETIREMENT SAVINGS PLAN

By: /s/ Frank J. Cortese

Frank J. Cortese, Chairman
Corporate Employee Benefits Committee of
Fortune Brands, Inc.

Date: June 28, 2002