

FORTUNE BRANDS INC
Form 11-K
June 29, 2005
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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, 2004

Commission file number 1-9076

Full Title of the Plan:

FORTUNE BRANDS HOURLY EMPLOYEE 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

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Fortune Brands Hourly

Employee Retirement

Savings Plan

Financial Statements and Supplemental Schedule

December 31, 2004 and 2003

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Fortune Brands Hourly Employee Retirement Savings Plan

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Note: Other supplemental schedules required by the Employee Retirement Income Security Act that have not been included herein are not applicable to the Fortune Brands Hourly Employee Retirement Savings Plan.

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Report of Independent Registered Public Accounting Firm

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 Hourly Employee Retirement Savings Plan (the Plan) at December 31, 2004 and 2003, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chicago, Illinois

June 27, 2005

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Fortune Brands Hourly Employee Retirement Savings Plan

Statement of Net Assets Available for Plan Benefits

December 31, 2004 and 2003

(dollars in thousands)

	<u>2004</u>	<u>2003</u>
Assets		
Beneficial interest in Fortune Brands, Inc. Savings Plans Master Trust net assets	\$ 70,073	\$ 40,256
Receivables		
Participant loans	5,629	3,429
Company contributions		6
Participant contributions	107	
	<u>5,736</u>	<u>3,435</u>
Total receivables		
	<u>5,736</u>	<u>3,435</u>
Net assets available for plan benefits	<u>\$ 75,809</u>	<u>\$ 43,691</u>

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

Table of Contents**Fortune Brands Hourly Employee Retirement Savings Plan****Statement of Changes in Net Assets Available for Plan Benefits****Years Ended December 31, 2004 and 2003****(dollars in thousands)**

	<u>2004</u>	<u>2003</u>
Additions		
Allocated share of Fortune Brands, Inc. Savings Plans Master Trust investment income	\$ 5,451	\$ 6,778
Interest income	197	164
Company contributions	3,374	2,610
Participant contributions	7,279	5,431
Transfers to the plan (Note 5)	21,268	55
Total additions	<u>37,569</u>	<u>15,038</u>
Deductions		
Benefits paid to participants	5,394	3,389
Transfers from the plan (Note 5)	57	163
Total deductions	<u>5,451</u>	<u>3,552</u>
Increase in net assets	32,118	11,486
Net assets available for plan benefits, beginning of year	<u>43,691</u>	<u>32,205</u>
Net assets available for plan benefits, end of year	<u>\$ 75,809</u>	<u>\$ 43,691</u>

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

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Fortune Brands Hourly Employee Retirement Savings Plan

Notes to Financial Statements

December 31, 2004 and 2003

1. Description of Plan

General

The Fortune Brands Hourly Employee Retirement Savings Plan (the Plan) is a defined contribution plan covering certain hourly, non-union employees of certain operating subsidiaries of Fortune Brands, Inc. (Fortune) participating in the Plan. MasterBrand Cabinets, Inc. (MasterBrand), Omega Ltd., Capital Cabinets, Inc., Moen Incorporated (Moen), ACCO Brands, Inc. (ACCO), Waterloo Industries, Inc. (Waterloo) and NHB Industries are the operating subsidiaries that contribute to the Plan and are referred to collectively as the Companies and individually as a Company. The Plan is subject to the requirements 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 of 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, 2004 and 2003, 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 Retirement Savings Plan and the Future Brands LLC Retirement Savings Plan. The Master Trust investments are administered and held by The Fidelity Management Trust Company (the Trustee).

Contributions

Each participant may elect to contribute on a before-tax basis (elective contributions) up to 50% of eligible compensation. A participant's elective contributions may not exceed the dollar amount provided by the Internal Revenue Code (the Code), which was \$13,000 and \$12,000 in 2004 and 2003, respectively. In addition, participants over 50 years of age may elect up to 25% of eligible compensation as an additional unmatched, pretax catch up contribution which is limited by the IRS Code to \$3,000 in 2004 and \$2,000 in 2003. The Plan also permits each participant to make after-tax contributions to the Plan. However, total pre-tax and after-tax contributions may not exceed 50% of the participant's total eligible compensation. Along with catch-up contributions, the maximum amount a person can contribute to the plan is 75% of eligible compensation.

Moen and Waterloo each contributes, on behalf of each eligible participant, an amount equal to 50% of the participant's contribution up to 6% of eligible compensation. ACCO Brands, Inc. contributes 50% of the participant's contribution up to 6% of eligible compensation and an additional 50% up to 3% of eligible compensation. MasterBrand contributes 40% of the participant's contribution up to 5% of eligible compensation for participants at its Littlestown, Pennsylvania; Crossville, Tennessee; and Kinston, North Carolina locations and participants at its distribution centers. MasterBrand contributes 50% of the participant's contribution up to 3% of eligible compensation for participants at its Grants Pass, Oregon and Hillsboro, Oregon locations. Additionally, MasterBrand makes an annual profit sharing contribution in the amount of \$200 for each eligible participant who is employed at the Kinston, North Carolina facility on December 31 of the applicable year.

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Fortune Brands Hourly Employee Retirement Savings Plan

Notes to Financial Statements

December 31, 2004 and 2003

The Schrock Cabinet division of MasterBrand (Schrock) contributes, on behalf of each eligible participant, 50% of the participant's contributions up to 5% of eligible compensation and an additional 50% of the participant's contributions up to 3% of eligible compensation. NHB Industries, Inc. (NHB), a subsidiary of MasterBrand, contributes, on behalf of each eligible participant, an amount equal to 40% of the participant's contributions up to 5% of eligible compensation. Omega Ltd., a subsidiary of MasterBrand, contributes 50% of the participant's contributions up to 6% of eligible compensation. Capital Cabinet, a subsidiary of MasterBrand, contributes 100% of the participant's contributions up to 4% of eligible compensation.

Participants may direct the investment of their elective contributions, matching contributions, profit sharing contributions, if any, and their Plan account balances in the available investment funds.

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 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 Company matching and profit sharing contributions plus earnings thereon occurs after one year of service.

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. Total forfeitures for the year ended December 31, 2004 are \$73,000.

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 time.

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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 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.

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Fortune Brands Hourly Employee Retirement Savings Plan

Notes to Financial Statements

December 31, 2004 and 2003

Distributions and Withdrawals

Benefits are payable from a participant's account under the Plan's 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 the 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 it has not expressed any intent to do so, each Company has the right under the Plan to discontinue its contributions at any time and Fortune, as plan sponsor and administrator, may terminate the Plan at any time subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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

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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 the market value of investments on a monthly basis.

Operating Expenses

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

Reclassifications

Certain prior-year amounts have been reclassified to conform with current-year presentation.

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The following is a reconciliation of net assets available for Plan benefits as stated in the financial statements to Form 5500 at December 31, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Net assets available for Plan benefits as stated in the accompanying financial statements	\$ 75,809	\$ 43,691
Less: Amounts allocated to withdrawing participants	1,174	288
	<u> </u>	<u> </u>
Net assets available for Plan benefits as stated in Form 5500	<u>\$ 74,635</u>	<u>\$ 43,403</u>

The following is a reconciliation of benefits paid to participants as stated in the financial statements to the Form 5500 at December 31, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Benefits paid to participants as stated in the accompanying financial statements	\$ 5,394	\$ 3,389
Add: Amounts allocated to withdrawing participants as of current year end	1,174	288
Less: Amounts allocated to withdrawing participants as of prior year end	288	334
	<u> </u>	<u> </u>
Benefits paid to participants as stated in Form 5500	<u>\$ 6,280</u>	<u>\$ 3,343</u>

4. Plan Amendments

The Plan was amended effective January 1, 2004 to allow certain hourly employees of ACCO Brands, Inc. to move to the Plan from the Fortune Brands Retirement Savings Plan.

The Plan was amended effective June 30, 2004 to allow for after-tax rollovers to the Plan if they were distributed from an eligible retirement plan.

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The Plan was amended effective June 30, 2004 to merge the Omega Ltd. 401(k) Plan into the Plan and to preserve certain protected benefits provided under the Omega Plan.

The Plan was amended effective June 30, 2004 to add four additional investment funds.

The Plan was amended effective December 7, 2004 to merge the Capital Cabinets Corp. 401(k) plan into the Plan and to preserve certain protected benefits provided under the Capital Cabinets Plan.

Table of Contents**Fortune Brands Hourly Employee Retirement Savings Plan****Notes to Financial Statements****December 31, 2004 and 2003****5. Transfers to and from the Plan**

The Omega Ltd. 401(k) Plan merged into the Plan effective June 30, 2004. The value of the assets transferred totaled \$17,765,000.

The Capital Cabinets, Inc. 401(k) Plan merged into the Plan effective December 7, 2004. The value of the assets transferred totaled \$1,812,000.

Transfers between the Plan, the Fortune Brands Retirement Savings Plan, and the Future Brands LLC Retirement Savings Plan also occur due to participant changes in status from hourly to salary or transfers between operating companies.

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 9.10% and 6.18% in the Master Trust's net assets at December 31, 2004 and 2003, respectively.

Master Trust assets at December 31, 2004 and 2003 are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Interest and dividends receivable	\$ 128	\$ 105
Common stock - corporate		
Fortune Brands, Inc. common stock	79,823	72,252
Other common stock	10,529	8,000
Registered investment companies	631,678	518,700
Interest bearing cash	47,688	52,413
	<u>769,846</u>	<u>651,470</u>
Total assets		
Administrative expenses payable	(332)	(599)
	<u>\$ 769,514</u>	<u>\$ 650,871</u>
Total net assets of the Master Trust available for benefits		

Table of Contents**Fortune Brands Hourly Employee Retirement Savings Plan****Notes to Financial Statements****December 31, 2004 and 2003**

The net appreciation in fair value of investments, interest income, dividend income, and administrative expenses related to the Master Trust for the years ended December 31, 2004 and 2003 is as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Net appreciation in fair value		
Common stock – corporate		
Fortune Brands, Inc. common stock	\$ 5,966	\$ 25,444
Other common stock	3,231	18,268
U. S. Government securities		(144)
Corporate debt instruments		104
Registered investment companies	66,565	82,260
	<u>75,762</u>	<u>125,932</u>
Net appreciation in fair value of investments of the Master Trust	75,762	125,932
Interest income	557	1,080
Dividend income	1,692	2,392
Administrative expenses	(149)	(1,600)
	<u>77,862</u>	<u>127,804</u>
Total net income of the Master Trust	<u>\$ 77,862</u>	<u>\$ 127,804</u>

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 plan benefits at the date of the financial statements and the changes in net assets available for plan 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.

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Fortune Brands Hourly Employee Retirement Savings Plan

Notes to Financial Statements

December 31, 2004 and 2003

10. Tax Status

The Internal Revenue Service (IRS) issued a determination letter dated March 6, 2002 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.

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 \$59,000 and \$473,000 for the years ended December 31, 2004 and 2003, respectively. In addition, fees payable to the trustee as of December 31, 2004 and 2003 were \$14,000 and \$11,000, respectively.

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SUPPLEMENTAL SCHEDULE

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Fortune Brands Hourly Employee Retirement Savings Plan

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2004

Schedule I

(a) (b) Identity of Issue, Borrower,

<u>Lessor or Similar Party</u>	<u>(c) Description of Investment</u>	<u>(e) Current Value</u>
Investment interest in Fortune Brands, Inc. Savings Plan Master Trust net assets		\$ 70,073
* Loans to participants	Interest rates ranging from 4% to 10.5%	5,629,000
		<u>\$ 5,699,073</u>

* Indicates a party in interest to the Plan.

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SIGNATURE

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

FORTUNE BRANDS HOURLY EMPLOYEE
RETIREMENT SAVINGS PLAN

By: /s/ Frank J. Cortese
Frank J. Cortese, Chairman

Corporate Employee Benefits Committee of
Fortune Brands, Inc.

Date: June 29, 2005