BEAM INC
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-9076

Beam Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3295276**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
510 Lake Cook Road, Deerfield, IL	**60015**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (847) 948-8888

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock, par value $3.125 per share, at June 30, 2012, was 158,368,382.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

BEAM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(In millions, except per share amounts)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales	$ 752.4	$ 702.7	$ 1,415.3	$ 1,375.8
Less: Excise taxes	(156.9)	(132.3)	(286.0)	(281.4)
Net sales	595.5	570.4	1,129.3	1,094.4
Cost of goods sold	248.6	241.7	467.7	471.3
Gross profit	346.9	328.7	661.6	623.1
Advertising and marketing expense	98.0	99.3	174.7	165.8
Selling, general and administrative expense	104.7	97.8	205.1	198.5
Amortization of intangible assets	4.3	4.1	8.5	8.0
Restructuring charges (gains)	0.4	(0.2)	2.7	1.9
Business separation costs	13.8	8.0	13.8	17.2
Operating income	125.7	119.7	256.8	231.7
Interest expense	26.9	29.1	51.4	60.0
Other (income) expense	(22.5)	3.0	(28.4)	3.1
Income from continuing operations before income taxes	121.3	87.6	233.8	168.6
Income taxes	20.0	25.2	54.1	44.5
Income from continuing operations Beam Inc.	101.3	62.4	179.7	124.1
(Loss) income from discontinued operations, net of tax	(0.8)	267.6	(0.1)	289.1
Net income	$ 100.5	$ 330.0	$ 179.6	$ 413.2
Less: Noncontrolling interests related to discontinued operations		1.4		3.4
Net income attributable to Beam Inc.	$ 100.5	$ 328.6	$ 179.6	$ 409.8
Basic earnings per Beam Inc. common share				
Continuing operations	$ 0.64	$ 0.40	$ 1.14	$ 0.80
Discontinued operations	(0.01)	1.73		1.86
Net income	$ 0.63	$ 2.13	$ 1.14	$ 2.66
Diluted earnings per Beam Inc. common share				
Continuing operations	$ 0.63	$ 0.40	$ 1.12	$ 0.79
Discontinued operations	(0.01)	1.69		1.82
Net income	$ 0.62	$ 2.09	$ 1.12	$ 2.61

Cash dividends per share paid on common stock	$ 0.205	$ 0.19	$ 0.41	$ 0.38
Weighted-average common shares outstanding basic	158.0	154.3	157.5	154.0
Weighted-average common shares outstanding diluted	160.8	157.3	160.2	156.9

See Notes to Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In millions)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income	$ 100.5	$ 330.0	$ 179.6	$ 413.2
Other comprehensive income:				
Foreign currency translation adjustments				
Foreign currency translation (losses) gains	(106.3)	33.3	13.4	142.6
Tax benefit		6.0		20.0
Derivative instruments				
Derivative instrument losses	(0.6)	(4.7)	(2.1)	(13.1)
Reclassification adjustments included in earnings	0.4	6.4	1.2	11.4
Tax (expense) benefit	(0.1)	0.3	0.2	2.4
Pension and other postretirement benefit adjustments				
Reclassification adjustments included in earnings	15.7	6.1	16.3	12.2
Tax expense	(5.9)	(1.9)	(6.1)	(4.2)
Total other comprehensive (loss) income	(96.8)	45.5	22.9	171.3
Comprehensive income	3.7	375.5	202.5	584.5
Less: Comprehensive income attributable to noncontrolling interests		1.4		3.4
Comprehensive income attributable to Beam Inc.	$ 3.7	$ 374.1	$ 202.5	$ 581.1

See Notes to Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

(In millions, except per share amounts)	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 109.3	$ 218.3
Accounts receivable from customers	411.6	364.8
Accounts receivable from related parties	11.2	21.0
Inventories		
Maturing spirits	1,353.9	1,283.2
Finished products	201.8	167.3
Other raw materials, supplies, and work in process	132.6	101.0
	1,688.3	1,551.5
Other current assets	264.3	278.8
Total current assets	2,484.7	2,434.4
Property, plant and equipment	758.1	729.7
Goodwill	2,544.7	2,103.9
Other intangible assets	2,279.2	2,099.0
Investments in affiliates	45.8	42.2
Other non-current assets	87.9	82.6
Total assets	$ 8,200.4	$ 7,491.8
Liabilities		
Current liabilities		
Notes payable and current portion of long-term debt	$ 299.8	$ 28.4
Accounts payable to vendors	110.5	134.1
Accounts payable to related parties	26.7	36.0
Other current liabilities	482.0	560.2
Total current liabilities	919.0	758.7
Long-term debt	2,213.4	1,902.1
Deferred income taxes	409.4	375.1
Accrued pension and postretirement benefits	117.1	118.7
Other non-current liabilities	213.2	237.5
Total liabilities	$ 3,872.1	$ 3,392.1
Equity		
Beam Inc. stockholders equity		
$2.67 Convertible Preferred stock	4.5	4.7
Common stock, par value $3.125 per share, 750.0 shares authorized, 234.9 shares issued, and 158.4 shares outstanding at June 30, 2012	734.0	734.0
Paid-in capital	885.0	882.4
Accumulated other comprehensive loss	(281.2)	(304.1)
Retained earnings	6,002.9	5,892.6
Treasury stock, at cost	(3,016.9)	(3,109.9)

Total equity	4,328.3	4,099.7
Total liabilities and equity	$ 8,200.4	$ 7,491.8

See Notes to Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In millions)	Six months ended June 30, 2012	2011
Operating activities		
Net income	$ 179.6	$ 413.2
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	49.4	100.4
Amortization	3.6	16.9
Stock-based compensation	9.8	23.6
Deferred income taxes	14.0	(189.3)
Pension settlement	15.1	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(12.2)	(213.4)
Inventories	(85.1)	(30.9)
Accounts payable	(41.4)	(6.0)
Other assets	19.2	6.5
Accrued expenses and other liabilities	(126.8)	(114.5)
Net cash provided by operating activities	25.2	6.5
Investing activities		
Capital expenditures	(58.7)	(98.0)
Proceeds from the disposition of assets	0.7	5.2
Acquisitions, net of cash acquired	(674.4)	(39.6)
Return of investment in affiliates	2.0	12.2
Cash transfer from Fortune Brands Home & Security Inc. in spin-off	6.0	
Net cash used in investing activities	(724.4)	(120.2)
Financing activities		
(Decrease) increase in short-term debt, net	(22.7)	144.9
Repayment of long-term debt		(590.6)
Issuance of long-term debt	592.9	
Dividends to stockholders	(64.7)	(58.7)
Proceeds from stock-based awards, net	79.5	38.7
Tax benefit on exercise of stock options	4.5	2.0
Dividends paid to noncontrolling interests		(0.7)
Debt issuance costs	(1.0)	
Net cash provided by (used in) financing activities	588.5	(464.4)
Effect of foreign exchange rate changes on cash	1.7	0.8
Net decrease in cash and cash equivalents	(109.0)	(577.3)
Change in cash included in assets of discontinued operations		(4.4)
Cash and cash equivalents at beginning of period	218.3	811.5

Cash and cash equivalents at end of period	$ 109.3	$ 229.8

See Notes to Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Presentation, and Principles of Consolidation

Description of Business

Beam Inc. is a leading premium spirits company that makes and sells branded distilled spirits products in major markets worldwide. Our principal products include bourbon whiskey, Scotch whisky, Canadian whisky, vodka, tequila, cognac, rum, cordials, and ready-to-drink pre-mixed cocktails.

References to we, our, us, Beam and the Company refer to Beam Inc. and its consolidated subsidiaries as a whole, unless the context otherw requires. The Company s reportable segments are North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA).

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements include the accounts of Beam Inc. and its majority-owned subsidiaries (after elimination of intercompany transactions).

The Company, formerly known as Fortune Brands, Inc., separated its three business segments during 2011. It completed the sale of the Golf business (the Golf business) in July 2011 and the tax-free spin-off (the Spin-Off) of Fortune Brands Home & Security, Inc. (Home & Security) in October 2011. The results of operations of Home & Security and the Golf business were reclassified to discontinued operations in the accompanying condensed consolidated statement of income for the three and six months ended June 30, 2011. The cash flows from discontinued operations for the six months ended June 30, 2012 and 2011 are not separately stated and classified in the accompanying condensed consolidated statement of cash flows. Footnote disclosures only relate to continuing operations except where noted otherwise.

The unaudited condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in our audited annual consolidated financial statements and notes. The year-end condensed consolidated balance sheet was derived from our audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). The condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q should be read in conjunction with our audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

In the opinion of management these financial statements include all adjustments that are considered necessary for a fair presentation of our financial statements in accordance with GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Interim results may not be indicative of results for a full year.

The presentation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results in future periods could differ from those estimates.

2. Recently Issued Accounting Standards

Presentation of Comprehensive Income

In 2011, the Financial Accounting Standards Board issued two Accounting Standard Updates, which amend guidance for the presentation of comprehensive income. This guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of OCI as part of the statement of changes in stockholders equity. We adopted the guidance effective January 1, 2012 and have retrospectively applied the new presentation of comprehensive income to prior periods presented. We now present the components of OCI and total comprehensive income in a separate statement. Other than the change in presentation and disclosure, the update did not have an impact on our financial condition or results of operations.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions

Acquisitions in 2012

Pinnacle and Calico Jack brands and assets

On May 31, 2012, we acquired the Pinnacle vodka and Calico Jack rum brands and certain other related assets (collectively referred to as the Pinnacle assets) from White Rock Distilleries, Inc. (White Rock) and its shareholders for approximately $608 million, consisting of $602 million paid at closing plus a working capital adjustment of $6 million that will be paid in August 2012. In connection with the acquisition, we also paid $3 million at closing to White Rock related to post closing compensation agreements with certain employees that will be recognized as expense over the service period of the employees. We believe that our scale and distribution network will allow us to generate synergies in terms of both cost savings and revenue generation. In addition, this acquisition significantly enhanced Beam s U.S. presence in the vodka category, which is the largest U.S. spirits category.

The following table summarizes the preliminary values of assets acquired and liabilities assumed as of the acquisition date (in millions):

	Amounts recorded as of the acquisition date
Accounts receivable	$ 21.9
Inventory	21.9
Other current assets	0.7
Property, plant and equipment	11.0
Intangible assets (tradenames) (Note 10)	156.0
Other liabilities	(16.6)
Total identifiable assets	194.9
Goodwill	413.2
	$ 608.1

Goodwill is calculated as the excess of consideration paid over the net assets acquired and represents synergies, organic growth and other benefits that are expected to arise from integrating the Pinnacle assets into our operations. Goodwill was recorded to the North America segment and is expected to be deductible for tax purposes. As the acquisition was consummated shortly before the end of the current reporting period, the above amounts are preliminary and subject to change.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes supplemental pro forma consolidated results of operations as if we acquired the Pinnacle assets on January 1, 2011 (in millions, except per share information):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales	$ 614.7	$ 598.7	$ 1,176.3	$ 1,144.2
Income from continuing operations	108.0	61.4	185.4	113.1
Earnings per share diluted continuing operations	$ 0.67	$ 0.39	$ 1.16	$ 0.72

The supplemental pro forma consolidated results of operations were prepared using the acquisition method of accounting and are based on historical Beam and Pinnacle financial information prepared on a GAAP basis, reflecting results of the combined operations for the three and six month periods ended June 30, 2012 and 2011. The historical financial information has been adjusted to give effect to the pro forma adjustments that are: (i) directly attributable to the acquisition and (ii) factually supportable. The pro forma consolidated results are not necessarily indicative of what the Company s consolidated results of operations actually would have been had it completed the acquisition on January 1, 2011. The pro forma consolidated results do not purport to project future results of operations of the combined company nor do they reflect the expected realization of any cost savings or revenue synergies associated with the acquisition. In addition, the pro forma consolidated results do not adjust for the impact of restructuring and other charges/gains that the Company incurred during the periods presented, other than those charges that are directly attributable to the acquisition. For further information on these restructuring and other charges, see Note 6, *Business Separation Costs*, and Note 7, *Restructuring and Other Charges*.

The pro forma consolidated results primarily reflect the following pro forma pre-tax adjustments:

An adjustment of amortization expense to reflect pro forma amortization expense based on the amortization of intangible assets acquired. Based on fair values and useful lives assigned (see Note 10), estimated annual amortization expense associated with the Pinnacle assets is approximately $0.4 million.

Additional interest expense associated with incremental debt issued by the Company to finance the acquisition of approximately $2.7 million and $4.1 million for the three months ended June 30, 2012 and 2011, respectively, and approximately $6.8 million and $8.2 million for the six months ended June 30, 2012 and 2011, respectively.

The elimination of approximately $12 million of costs incurred by the Company in both 2012 periods, which are directly attributable to the acquisition, and which do not have a continuing impact on the combined company s operating results. Included in these costs are legal and financial advisory fees, and costs related to integrating the combined company (such as distributor contract termination fees and employee-related retention costs). These costs have been included in the pro forma amounts for six month period ended June 30, 2011 presented above.

An adjustment to reflect tax expense on the Pinnacle pre-tax earnings and the above pro forma adjustments at an assumed 38% combined federal and state tax rate.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cooley Distillery plc

In January 2012, we acquired Cooley Distillery plc (Cooley), an Irish whiskey producer, for a purchase price of approximately 60 million ($75 million) plus the repayment of outstanding debt. The following table summarizes the values of assets acquired and liabilities assumed as of the acquisition date (in millions):

	Amounts recorded as of the acquisition date	
Cash	$	3.5
Accounts receivable		4.9
Inventory		35.0
Property, plant and equipment		14.0
Intangible assets (tradenames)		19.3
Debt		(17.2)
Other liabilities		(12.9)
Total identifiable assets		46.6
Goodwill		28.4
	$	75.0

None of the goodwill, which primarily relates to the North America and EMEA segments, is expected to be deductible for tax purposes. Cooley s results of operations, which were not material to our 2012 results, are included in our condensed consolidated financial statements from the date of acquisition. The repayment of indebtedness in connection with the transaction is included within (decrease) increase in short-term debt, net within the accompanying condensed consolidated statement of cash flows.

Acquisition in 2011

In March 2011, we acquired the Skinnygirl ready-to-drink cocktail business. The acquisition included inventory and identifiable intangible assets. We recorded the estimated fair value of contingent consideration, which is based on the achievement of certain sales targets, as of the acquisition date.

During the first quarter of 2012, we paid approximately $2 million of previously accrued contingent consideration based on the attainment of contractual earn-outs during 2011. The estimated fair value of remaining contingent consideration as of June 30, 2012 was approximately $26 million. The estimated fair value is considered a level 3 measurement because the probability-weighted discounted cash flow methodology used to estimate fair value includes the use of significant unobservable inputs, primarily the contractual contingent consideration sales targets and assumed probabilities. There was not a significant change in either the estimated contingent consideration fair value or the fair value inputs during 2012. In future periods, the Company may be required to record additional contingent consideration in an amount not in excess of approximately $2 million. Any change in our estimated liability for contingent consideration will increase or decrease operating income in future periods.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Discontinued Operations

On October 3, 2011, the Company completed the Spin-Off of Home & Security by distributing 100% of the outstanding shares of common stock of Home & Security to holders of the Company s common stock.

On July 29, 2011, the Company completed the sale of the Golf business to a company formed by Fila Korea Ltd. and Mirae Asset Private Equity of Korea for a cash purchase price of $1.275 billion, which excludes cash sold and includes a payment for a working capital adjustment received in October 2011.

The Spin-Off and the sale of the Golf business are together referred to herein as the Separation Transactions.

The following table summarizes the results of the Home & Security and Golf businesses for the three and six months ended June 30, 2012 and 2011 (in millions).

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales	$	$ 1,288.4	$	$ 2,372.8
(Loss) income from discontinued operations before income taxes	$ (1.0)	$ 101.3	$ 4.1	$ 132.9
Income tax (benefit) expense	(0.2)	(166.3)	4.2	(156.2)
(Loss) income from discontinued operations	$ (0.8)	$ 267.6	$ (0.1)	$ 289.1

We recorded adjustments to income from discontinued operations in 2012 for the impact of settlement of certain liabilities relating to discontinued operations that were retained by the Company. Additional adjustments may be recorded in future quarters as we continue to settle liabilities related to discontinued operations (primarily related to income and other taxes). Income tax expense from discontinued operations in the six months ended June 30, 2012 includes a charge of $4.6 million due to a 2012 U.S. tax regulation change affecting Home & Security during the period in which we owned the business. We recorded an equal amount of indemnification income under our tax allocation agreement with Home & Security.

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

Interest expense associated with the Company s debt, which was not directly associated with a discontinued segment, was allocated to discontinued operations based on the ratio of net assets of the Home & Security and Golf businesses to the sum of the Company s total net assets plus consolidated debt other than debt directly attributable to other operations of the Company. The amount of interest expense allocated to discontinued operations for the three and six months ended June 30, 2011 was $16.2 million and $31.9 million, respectively.

5. Stock-Based Compensation

We use stock options, performance share awards (PSUs), and restricted stock units (RSUs) to compensate key employees and stock awards to compensate outside directors. During the six months ended June 30, 2012, we granted to employees 468,699 stock options, 183,178 PSUs and 138,694 RSUs. The total grant-date fair value of awards granted to employees during the six months ended June 30, 2012 was $25.0 million and related expense is expected to be recognized over a weighted-average period of three years. In April 2012, we granted 10,265 RSUs to outside directors at a weighted-average grant date fair value of $56.02 per share. Awards granted to outside directors vest immediately and the related compensation cost is expensed at the time of an award based on the fair value of a share of Beam s stock at the date of the award.

6. Business Separation Costs

Business separation costs are directly related to implementing the Separation Transactions (refer to Note 4, *Discontinued Operations*, for additional information on the Separation Transactions). The separation costs in the 2012 periods include a $15.1 million pension settlement charge associated with a required $29 million lump sum distribution of benefits paid to former Fortune Brands executives in July 2012, partially offset by the reversal of Separation-related

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reserves that were determined to be no longer necessary. The settlement charge primarily consists of the recognition of pension losses previously deferred in accumulated other comprehensive income (AOCI), and the $29 million distribution was the amount of these executives unfunded pension benefit. Under applicable law, we could not make the $29 million distribution until six months following the executives termination date (December 31, 2011). We recorded $8.0 million and $17.2 million of business separation costs in the three and six months ended June 30, 2011, respectively. Business separation costs in the 2011 periods consisted of financial, legal and other advisory fees related to the Separation Transactions.

7. Restructuring and Other Charges

Restructuring charges (gains)

The following is a summary of restructuring charges (gains) for continuing operations for the three and six months ended June 30, 2012 and 2011 (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Workforce restructurings and other	$ 0.4	$ (0.6)	$ 2.7	$ (0.1)
Lease/contract terminations		0.4		2.0
	$ 0.4	$ (0.2)	$ 2.7	$ 1.9

In 2012, restructuring charges related to organizational streamlining initiatives, which primarily include the Company s plans to relocate certain of its U.S. finance and human resource shared services from its Deerfield headquarters to one of its Kentucky locations. In 2011, restructuring charges related to distribution and supply-chain initiatives, facility consolidations, and organizational streamlining initiatives.

The changes in the balance of the restructuring liability for the six months ended June 30, 2012 and 2011 are as follows (in millions):

	Workforce Restructurings	Contract Termination Costs	Total
Balance at December 31, 2010	$ 12.8	$ 9.9	$ 22.7
Provision	(0.1)	2.0	1.9
Cash payments	(5.3)	(7.8)	(13.1)
Foreign currency and other non-cash changes	(0.8)	(0.5)	(1.3)
Balance at June 30, 2011	$ 6.6	$ 3.6	$ 10.2
Balance at December 31, 2011	$ 7.5	$ 3.2	$ 10.7
Provision	2.2		2.2
Cash payments	(3.7)	(0.2)	(3.9)
Foreign currency and other non-cash changes	0.6	(0.1)	0.5
Balance at June 30, 2012	$ 6.6	$ 2.9	$ 9.5

We expect the remaining liability related to workforce restructurings to be paid in 2012 and 2013 and the remaining liability related to lease costs will be paid over the respective lease terms.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other charges (gains)

Our pre-tax operating income for the three and six months ended June 30, 2012 and 2011 was impacted by the following additional items (in millions):

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Australia distribution one-time sale [(a)]	$	$	$	$ (23.6)
Acquisition and integration-related charges [(b)]	11.5		15.3	
Other charges [(c)]	0.2	1.4	1.0	5.4
	$ 11.7	$ 1.4	$ 16.3	$ (18.2)

(a) Relates to the one-time sale of inventory associated with transition to our new long-term manufacturing and distribution agreement in Australia. This amount consists of $46.3 million included in Net sales and $22.7 million included in Cost of goods sold in the condensed consolidated statement of income.

(b) Consists of costs associated with the acquisition and integration of the Pinnacle assets and the Cooley business and is included in Selling, general, and administrative expense in the condensed consolidated statement of income. For the three and six months ended June 30, 2012, acquisition-related charges primarily consists of transaction-related expenses (professional advisory, consulting and other transaction and integration-related fees) of $4.7 million and $5.4 million, respectively, and contract termination expenses of $6.6 million and $9.7 million, respectively. The contract termination costs were incurred to align the distribution of the acquired brands with the Company s existing distribution structure. Contract termination fees are primarily based on actual settlement agreements, but, where a settlement agreement has not been reached, the Company recorded an estimated liability.

(c) 2012 primarily consists of consulting fees related to continuous improvement projects. 2011 primarily consists of charges related to accelerated depreciation for fixed assets that are being taken out of service early and the write-down of inventory associated with discontinued brands. Other charges included in Cost of goods sold in the condensed consolidated statement of income for the three months ended June 30, 2011 are $1.4 million and for the six months ended June 30, 2012 and 2011 are $0.2 million and $6.0 million, respectively. Other charges (gains) included in Selling, general, and administrative expense in the condensed consolidated statement of income for the three months ended June 30, 2012 are $0.2 million and for the six months ended June 30, 2012 and 2011 are $0.8 million and $(0.6) million, respectively.

8. Income Taxes

The effective income tax rates for the three months ended June 30, 2012 and 2011 were 16.5% and 28.8%, respectively. The effective income tax rates for the six months ended June 30, 2012 and 2011 were 23.1% and 26.4%, respectively. The effective tax rates in 2012 and 2011 were less than the U.S. federal statutory rate primarily due to foreign income that is taxed at lower rates than the U.S. federal statutory rate, and, in 2012, the receipt of non-taxable indemnification income from Pernod Ricard S.A. (Pernod) (described below).

In April 2012, the Spanish Supreme Court issued a judgment in connection with disputed income taxes in the amount of approximately 15 million ($20 million) against our Spanish subsidiaries, which included assets acquired from Pernod. We paid the assessment to the Spanish tax authorities in May 2012. Pursuant to the acquisition agreement, Pernod indemnified the Company for pre-acquisition income tax contingencies and liabilities, and we negotiated and received a reimbursement of approximately 14 million ($18 million) from Pernod. This non-taxable indemnification payment received from Pernod related to this judgment was recorded as other income in the second quarter of 2012.

In June 2012, we recorded unrecognized tax benefits as a reduction to tax expense resulting from the second quarter expirations of foreign jurisdiction income tax statute of limitations.

As a result of both the Spain audit settlement and foreign statute expirations, we recorded approximately $6 million of previously unrecognized tax benefits as a reduction to tax expense in the second quarter of 2012.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease in the range of $4 million to $48 million, primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

9. Earnings Per Share

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the reporting period. Diluted EPS is calculated by dividing net income attributable to Beam Inc. by the diluted weighted average number of shares, which considers potential dilution from conversion/exercise of outstanding preferred stock and stock-based awards.

The computations of basic and diluted EPS were as follows (in millions, except per share data):

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Income from continuing operations	$ 101.3	$ 62.4	$ 179.7	$ 124.1
(Loss) income from discontinued operations	(0.8)	266.2	(0.1)	285.7
Net income attributable to Beam Inc.	$ 100.5	$ 328.6	$ 179.6	$ 409.8
Less: Preferred stock dividends	(0.1)	(0.1)	(0.2)	(0.2)
Income attributable to Beam Inc. common stockholders basic	$ 100.4	$ 328.5	$ 179.4	$ 409.6
Weighted average common shares outstanding basic	158.0	154.3	157.5	154.0
Dilutive effect of conversion of convertible preferred stock	1.3	1.0	1.3	1.1
Dilutive effect of exercise of stock-based awards	1.5	2.0	1.4	1.8
Weighted average common shares outstanding diluted	160.8	157.3	160.2	156.9
Basic Earnings Per Common Share				
Continuing operations	$ 0.64	$ 0.40	$ 1.14	$ 0.80
Discontinued operations	(0.01)	1.73		1.86
Net income	$ 0.63	$ 2.13	$ 1.14	$ 2.66
Diluted Earnings Per Common Share				
Continuing operations	$ 0.63	$ 0.40	$ 1.12	$ 0.79
Discontinued operations	(0.01)	1.69		1.82
Net income	$ 0.62	$ 2.09	$ 1.12	$ 2.61
Antidilutive shares excluded from weighted average number of common shares outstanding for diluted EPS	7.0	8.8	7.0	8.5

10. Goodwill and Other Intangible Assets

The change in the net carrying amount of goodwill was as follows (in millions):

	2012
Net book value January 1	$ 2,103.9
Acquisition-related adjustments	441.9
Translation adjustments	(1.1)
Net book value June 30	$ 2,544.7

Acquisition-related adjustments in 2012 related to the acquisition of the Pinnacle assets and the acquisition of Cooley. See Note 3 for more information on these acquisitions.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The gross carrying value and accumulated amortization by class of intangible assets as of June 30, 2012 and December 31, 2011 were as follows (in millions):

	June 30, 2012			December 31, 2011		
	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived intangible assets tradenames[(a)]	(b)	(b)	$ 1,966.9	(b)	(b)	$ 1,783.5
Amortizable intangible assets						
Tradenames	$ 491.7	$ (196.1)	$ 295.6	$ 493.7	$ (189.3)	$ 304.4
Customer and contractual relationships	6.5	(2.5)	4.0	6.0	(2.0)	4.0
Licenses and other	20.5	(7.8)	12.7	14.5	(7.4)	7.1
	$ 518.7	$ (206.4)	$ 312.3	$ 514.2	$ (198.7)	$ 315.5
Total identifiable intangibles			$ 2,279.2			$ 2,099.0

(a) Tradename carrying value was impacted primarily due to acquisitions (see Note 3) and also foreign currency exchange rates.

(b) Not applicable.

The Pinnacle tradename acquired during the second quarter of 2012 was estimated to have a fair value of $150 million and an indefinite useful life. The Calico Jack tradename acquired during the second quarter of 2012 was estimated to have a fair value of $6 million and a useful life of 15 years. The tradenames acquired in the Cooley acquisition are primarily indefinite-lived intangible assets.

11. Debt

In May 2012, we issued $300 million aggregate principal amount of 1.875% Notes due 2017 (the 2017 Notes) and $300 million aggregate principal amount of 3.250% Notes due 2022 (the 2022 Notes and, together with the 2017 Notes, the Notes). Net proceeds were used to finance the acquisition of the Pinnacle assets.

The 2017 Notes will mature on May 15, 2017 and bear interest at a fixed rate of 1.875% per annum. The 2022 Notes will mature on May 15, 2022 and bear interest at a fixed rate of 3.250% per annum. The Company will pay interest on the Notes from May 21, 2012 semi-annually, in arrears, on May 15 and November 15 of each year, beginning November 15, 2012. The Notes constitute unsecured and unsubordinated obligations of the Company and rank on parity with all of the Company s other unsecured and unsubordinated indebtedness from time to time outstanding.

12. Derivative Instruments

We do not enter into financial instruments for trading or speculative purposes. We principally use foreign exchange contracts and interest rate swap contracts to reduce the impact of changes in foreign currency exchange rates and interest rates.

We enter into foreign exchange contracts to hedge forecasted sales and purchases denominated in select foreign currencies, thereby limiting currency risk that would otherwise result from changes in exchange rates. The periods of the foreign exchange contracts correspond to the periods of the forecasted transactions, which generally do not exceed 12 to 15 months from the most recent balance sheet date.

We also enter into foreign exchange contracts to hedge our risk to changes in the fair value of recognized foreign currency denominated assets and liabilities. Our primary foreign currency hedge contracts pertain to the Mexican peso, the Canadian dollar, the Euro, the British pound, and the Australian dollar. The U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at June 30, 2012 and December 31, 2011 was $415.8 million and $450.4 million, respectively.

During the second quarter of 2012, we entered into fixed to floating interest rate swaps with an aggregate notional amount of $200 million. These swap agreements hedge changes in the fair value of a portion of our existing fixed-rate debt that result from changes in a benchmark interest rate (U.S. LIBOR). Our counterparty pays us a fixed interest rate equal to the coupon on the debt and we pay the counterparty a floating interest rate based on U.S. LIBOR plus a fixed spread. The swap agreements were designated as fair value hedges.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

All derivatives are recognized at their fair value. On the date the derivative contract is entered into, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid (cash flow hedge), or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in AOCI until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

The fair values of derivative instruments on the condensed consolidated balance sheet as of June 30, 2012 and December 31, 2011 were (in millions):

		Fair Value	
	Balance Sheet Classification	**June 30, 2012**	**December 31, 2011**
<u>Assets</u>			
Foreign exchange contracts	Other current assets	$ 4.1	$ 3.7
Interest rate contracts	Other non-current assets	1.5	
<u>Liabilities</u>			
Foreign exchange contracts	Other current liabilities	$ 4.6	$ 5.8

The effects of derivative financial instruments on the condensed statements of income and comprehensive income for the three months ended June 30, 2012 and 2011 were (in millions):

		Gain (Loss)				
		Recognized in OCI(Effective Portion)		**Recognized in Income**		
Type of hedge		**2012**	**2011**	**Location of Gain (Loss) Recognized in Income**	**2012**	**2011**
Cash flow	foreign exchange contracts	$ (0.6)	$ (3.1)	Net sales (reclassifications)	$ (0.4)	$ (3.2)
Fair value	interest rate contracts	n/a	n/a	Interest expense	1.5	5.1
Fair value	foreign exchange contracts	n/a	n/a	Other income (loss)	0.8	(5.1)
Total		$ (0.6)	$ (3.1)		$ 1.9	$ (3.2)

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effects of derivative financial instruments on the condensed statements of income and comprehensive income for the six months ended June 30, 2012 and 2011 were (in millions):

		Gain (Loss)				
		Recognized in OCI (Effective Portion)		Recognized in Income		
Type of hedge		**2012**	**2011**	**Location of Gain (Loss) Recognized in Income**	**2012**	**2011**
Cash flow	foreign exchange contracts	$ (2.1)	$ (4.6)	Net sales (reclassifications)	$ (1.2)	$ (7.1)
Fair value	interest rate contracts	n/a	n/a	Interest expense	1.5	10.1
Fair value	foreign exchange contracts	n/a	n/a	Other income	(0.2)	(16.3)
Total		$ (2.1)	$ (4.6)		$ 0.1	$ (13.3)

We estimate that less than $1 million of net derivative losses included in AOCI as of June 30, 2012 will be reclassified to earnings within the next twelve months.

In the three and six months ended June 30, 2012 and 2011, the ineffective portion of cash flow hedges recognized in other (income) expense was insignificant.

13. Fair Value Measurements

Authoritative accounting guidance establishes a three tier fair value hierarchy which prioritizes the inputs used in measuring fair values as follows:

Level 1 observable inputs such as quoted prices for identical assets in active markets;

Level 2 inputs other than quoted prices for identical assets in active markets that are observable either directly or indirectly; and

Level 3 unobservable inputs in which there is little or no market data which requires the use of valuation techniques and the development of assumptions.

We use the following methods and assumptions to estimate the fair values of our financial instruments:

Derivative financial instruments are carried at fair value, based on standard valuation techniques that use, where possible, current market-based or independently sourced pricing units, such as interest rates, currency rates, or implied volatilities.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 were as follows (in millions):

	Fair Value	
	June 30, 2012	December 31, 2011
Assets		
Derivative financial instruments (Level 2)	$ 5.6	$ 3.7
Liabilities		
Derivative financial instruments (Level 2)	$ 4.6	$ 5.8

Cash and cash equivalents, which consist of bank deposits, are carried at cost. Due to the short-term nature of these cash balances, cost approximates fair value. The carrying value and estimated fair value of our cash and cash equivalents (considered a Level 2 fair value measurement) at June 30, 2012 and December 31, 2011 was $109.3 million and $218.3 million.

The fair value of our long-term debt (including current portion) was determined from quoted market prices, where available, or from estimates using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements. The fair value of our long-term debt (considered a Level 2 fair value measurement) at June 30, 2012 was approximately $2,692.3 million, compared with the aggregate carrying value of $2,490.4 million. The fair value of our long-term debt (considered a Level 2 fair value measurement) at December 31, 2011 was approximately $2,015.4 million, compared with the aggregate carrying value of $1,902.1 million.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Pension and Other Postretirement Benefits

We have a number of pension plans covering many of the Company s current and former employees. The plans provide for payment of retirement benefits, mainly commencing between the ages of 55 and 65, and also for payment of certain disability and severance benefits. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plans are generally determined on the basis of an employee s length of service and/or earnings. Employer contributions to the plans are made, as necessary, to ensure legal funding requirements are satisfied. In addition, from time to time, we have made contributions in excess of the legal funding requirements.

During the third quarter of 2011, the Company amended certain of its pension plans in the U.S. to freeze the accrual of future benefits effective at December 31, 2011. This freeze relates to Beam non-union employees.

As part of the Separation Transactions described in Note 4, *Discontinued Operations*, pension plans that were directly related to the discontinued operations were transferred with the other assets and liabilities of the disposed businesses.

Components of net periodic benefit cost from continuing operations for the three months ended June 30, 2012 and 2011 were as follows for the Company s pension plans (in millions):

	Three months ended June 30,			
	U.S.		International	
	2012	2011	2012	2011
Service cost	$ 0.3	$ 1.5	$ 0.6	$ 0.5
Interest cost	4.1	4.7	1.2	1.3
Expected return on plan assets	(5.0)	(5.9)	(1.1)	(1.3)
Amortization of net loss	1.3	2.4	0.2	0.1
Settlement loss (Note 6)	15.1			
Net periodic benefit cost	$ 15.8	$ 2.7	$ 0.9	$ 0.6

Components of net periodic benefit cost from continuing operations for the six months ended June 30, 2012 and 2011 were as follows for the Company s pension plans (in millions):

	Six months ended June 30,			
	U.S.		International	
	2012	2011	2012	2011
Service cost	$ 0.6	$ 3.0	$ 1.2	$ 1.0
Interest cost	8.3	9.4	2.4	2.6
Expected return on plan assets	(10.1)	(11.8)	(2.2)	(2.6)
Amortization of net loss	2.6	4.8	0.4	0.2
Settlement loss (Note 6)	15.1			
Net periodic benefit cost	$ 16.5	$ 5.4	$ 1.8	$ 1.2

Components of net periodic benefit income from continuing operations for the three months ended June 30, 2012 and 2011 were as follows for the Company s other postretirement benefit plans (in millions):

Three months ended June 30,

	2012	2011
Service cost	$ 0.1	$ 0.1
Interest cost	0.1	0.2
Amortization of prior service credit	(0.9)	(1.1)
Net periodic benefit income	$ (0.7)	$ (0.8)

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic benefit income from continuing operations for the six months ended June 30, 2012 and 2011 were as follows for the Company s other postretirement benefit plans (in millions):

	Six months ended June 30, 2012	2011
Service cost	$ 0.2	$ 0.2
Interest cost	0.2	0.4
Amortization of prior service credit	(1.8)	(2.2)
Net periodic benefit income	$ (1.4)	$ (1.6)

15. Commitments and Contingencies

Legal

Tobacco Litigation and Indemnification

On December 22, 1994, we sold The American Tobacco Company (ATCO) subsidiary to Brown & Williamson Tobacco Corporation (now known as Brown & Williamson Holding, Inc.) (B&W). In connection with the sale, B&W and ATCO, which subsequently merged into B&W, agreed, under an Indemnification Agreement (the Indemnification Agreement), to indemnify the Company against claims including legal expenses arising from smoking and health and fire safe cigarette matters relating to the tobacco business of ATCO.

On July 30, 2004, B&W and R.J. Reynolds Tobacco Holdings, Inc. announced that they had completed the combination of their respective U.S. tobacco businesses, previously conducted by B&W (and ATCO) and R.J. Reynolds Tobacco Co., by forming a new combined company known as R.J. Reynolds Tobacco Company. As a result of the combination and in accordance with the Indemnification Agreement, the new R.J. Reynolds Tobacco Company assumed the indemnification obligations under the Indemnification Agreement relating to the U.S. business previously conducted by B&W (and ATCO). B&W has not been released from any of its obligations under the Indemnification Agreement. We refer to B&W and the new R.J. Reynolds Tobacco Company as the Indemnitor under the Indemnification Agreement.

The Indemnitor has complied with the terms of the Indemnification Agreement since 1994, and we are not aware of any inability on the part of the Indemnitor to satisfy its indemnity obligations.

Numerous legal actions, proceedings and claims are pending in various jurisdictions against leading tobacco manufacturers, including B&W both individually and as successor by merger to ATCO, based upon allegations that cancer and other ailments have resulted from tobacco use. The Company has been named as a defendant in some of these cases. These claims have generally fallen within three categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs, (ii) smoking and health cases alleging personal injury and other damages and purporting to be brought on behalf of classes of individual plaintiffs, and (iii) health care cost recovery cases, including class actions, brought by foreign governments, unions, health trusts, taxpayers and others seeking reimbursement for health care expenditures allegedly caused by cigarette smoking. Damages claimed in some of the cases range into the billions of dollars.

It is not possible to predict the outcome of the pending tobacco-related litigation, and it is possible that some of these actions could be decided unfavorably. Management is unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome of the pending litigation. Management believes that there are a number of meritorious defenses to the pending actions, including the fact that the Company never made or sold tobacco, and these actions are being vigorously contested by the Indemnitor. Management believes that the pending actions will not have a material adverse effect upon the results of operations, cash flows or financial condition of the Company because it believes it has meritorious defenses, and because the Company is indemnified under the Indemnification Agreement.

In September 2011, in connection with the Spin-Off, the Company agreed to indemnify Home & Security for any losses arising from smoking and health or fire-safe cigarette matters relating to the tobacco business of any of the Company s predecessors or former subsidiaries.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Litigation

From time to time the Company is subject to various other lawsuits, claims, disputes and investigations in the normal conduct of its operations. These include, but are not limited to, commercial disputes, including purported class actions, employment claims, actions by tax and customs authorities, and environmental matters. Some of these legal proceedings include claims for substantial or unspecified damages. We believe that there are meritorious defenses to these actions and are contesting them vigorously. We do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect on our results of operations, cash flows or financial condition.

Guarantees

Three of our 50%-owned foreign joint ventures have euro-denominated credit facilities, which we have partially guaranteed. Our maximum guarantee exposure, assuming the credit facilities are fully utilized, is a total U.S. dollar equivalent of $17.3 million, of which our guarantee exposure was $9.0 million based on facilities utilized at June 30, 2012. The Company has not recorded a liability for these guarantees.

We guarantee a lease for ACCO World Corporation (ACCO), the office products business we divested in a spin-off in 2005. As of June 30, 2012, remaining lease payments totaling $6.8 million are payable by ACCO through early 2013. The liability related to this guarantee is not material.

As part of the sale of the Golf business we agreed to indemnify the buyer for certain estimated tax related obligations that will be paid by the buyer, but that relate to periods during which we owned the Golf business. Our estimate of our liabilities for these tax indemnifications is approximately $39 million and $40 million as of June 30, 2012 and December 31, 2011, respectively, and is recorded as a liability on our condensed consolidated balance sheet. Our actual obligation may differ based on closure of the tax period with the taxing authorities or if there is an audit during open periods resulting in a change in the amount of tax due or refundable (including related interest and/or penalties if applicable).

Environmental

We are subject to laws and regulations relating to the protection of the environment. At June 30, 2012 and December 31, 2011, environmental accruals amounted to $9.3 million and $8.6 million, respectively, and are included in non-current liabilities on our condensed consolidated balance sheet. It is not possible to quantify with certainty the potential impact of actions relating to environmental matters, particularly remediation and other compliance efforts that our subsidiaries may undertake in the future, due to the status of laws, regulations, technology and information related to individual sites and other uncertainties. We are involved in remediation actions to clean up hazardous wastes as required by federal and state laws. Based on our evaluation of the cleanup cost estimates and the compliance programs, we do not believe there is a reasonable possibility that a material loss exceeding the amounts already accrued will be incurred. Liabilities for remediation costs at each site are based on our best estimate of undiscounted future costs.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Information

Our three operating segments, which are also our reportable segments, are: North America, EMEA (Europe/Middle East/Africa), and APSA (Asia-Pacific/South America). Our reportable segments are based on internal organization of the business used by management for making operating decisions and assessing performance. Key countries/markets included in North America are the United States, Canada, and Mexico. Key countries/markets included in EMEA are Germany, Spain, the United Kingdom, Russia, Turkey, Ireland, Italy, Hungary, Czech Republic, Romania, South Africa, North America Duty Free, and Europe Travel Retail. Key countries/markets included in APSA are Australia, New Zealand, Southeast Asia, China, Brazil, India, South Korea and Japan.

Each operating segment derives revenues from the sale of distilled spirits. Segment net sales is net sales excluding items considered by management to be unusual or infrequent in nature. The measure of segment profitability regularly reviewed by the chief operating decision maker is operating income before charges/gains that management believes are not considered indicative of the segments underlying operating performance; consequently segment results presented in accordance with GAAP exclude such items. Charges/gains excluded from segment results include restructuring charges, other charges related to restructuring initiatives that cannot be reported as restructuring charges under GAAP, acquisition and integration-related costs, business separation costs, and the one-time sales impact of transitioning to our long-term distribution agreement in Australia. Unallocated corporate costs in 2011 reflect the estimated, incremental historical Fortune Brands corporate structure as compared to the estimated Beam corporate structure following the Spin-Off. The Company estimated its lower corporate cost structure based on analysis and projections of costs expected to be incurred by the Company had the Separation occurred January 1, 2011.

Financial information for each segment is presented in the tables below (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales:				
North America	$ 370.1	$ 334.1	$ 679.4	$ 608.8
EMEA	111.7	119.1	219.0	214.9
APSA	113.7	117.2	230.9	224.4
Segment net sales	$ 595.5	$ 570.4	$ 1,129.3	$ 1,048.1
Australia distribution one-time sale				46.3
Consolidated net sales	$ 595.5	$ 570.4	$ 1,129.3	$ 1,094.4
Income from continuing operations before income taxes:				
North America	$ 105.4	$ 95.1	$ 204.0	$ 178.0
EMEA	23.4	24.6	40.8	45.0
APSA	22.8	19.4	44.8	34.2
Total segment income	$ 151.6	$ 139.1	$ 289.6	$ 257.2
Deduct:				
Business separation costs (Note 6)	13.8	8.0	13.8	17.2
Restructuring charges (gains) (Note 7)	0.4	(0.2)	2.7	1.9
Other charges (gains) (Note 7)	11.7	1.4	16.3	(18.2)
Unallocated corporate costs		10.2		24.6
Consolidated operating income	$ 125.7	$ 119.7	$ 256.8	$ 231.7
Interest expense	26.9	29.1	51.4	60.0
Other (income) expense	(22.5)	3.0	(28.4)	3.1

Income from continuing operations before income tax	$ 121.3	$ 87.6	$ 233.8	$ 168.6

Refer to Note 7, *Restructuring and Other Charges*, for more information on restructuring charges (gains) and other charges (gains).

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management s expectations. Please see Forward-Looking Statements.

We use the terms Beam, the Company, we, us, and our to refer to Beam Inc. and its consolidated subsidiaries.

EXECUTIVE SUMMARY

We are a leading premium spirits company that makes and sells branded distilled spirits products in major markets worldwide. Our principal products include bourbon whiskey, Scotch whisky, Canadian whisky, vodka, tequila, cognac, rum, cordials, and ready-to-drink pre-mixed cocktails. Our portfolio includes several of the world s top premium spirits brands and some of the industry s fastest growing innovations. As further described in the condensed consolidated financial statements included in this Form 10-Q, discontinued operations includes the former Fortune Brands Golf and Home & Security segments, both of which were disposed of in 2011. The sale of the Golf business and the tax-free spin-off of the Home & Security business (the Spin-Off) are together referred to in this Form 10-Q as the Separation Transactions.

Operational and Financial Highlights for the Second Quarter of 2012

Operational and financial highlights for the second quarter of 2012 include the following:

- Our diluted earnings per share from continuing operations increased 58% compared to the second quarter of 2011 driven by a 4% net sales increase, higher non-operating income and lower income tax expense;

- We completed the acquisition of the Pinnacle Vodka brands and related assets (the Pinnacle assets), which enhanced our presence in the vodka category and is expected to generate revenue and cost synergies; and

- We issued long-term debt with an aggregate principal amount of $600 million at favorable interest rates to fund our acquisition of the Pinnacle assets. Refer to Note 11, *Debt*, and Note 3, *Acquisitions*, for more information.

Certain items had a significant impact on our financial results in the second quarters of 2012 and 2011. These include the impact of the Separation Transactions completed in 2011, changes in foreign currency exchange rates, acquisition and disposition-related items, restructuring and other related charges and income tax related matters.

In the second quarter of 2012, our financial results included the following:

- Business separation costs of $13.8 million ($8.5 million, or $0.05 per share, net of tax) primarily related to a $15.1 million pension settlement charge associated with a required $29 million lump sum distribution of benefits paid to former Fortune Brands executives in July 2012 in connection with the Separation Transactions completed in 2011;

- Acquisition and integration-related charges of $12.1 million ($7.6 million, or $0.05 per share, net of tax) incurred in connection with the May 2012 acquisition of the Pinnacle assets. The pre-tax charges primarily consist of transaction expenses (professional advisory, consulting and other transaction and integration-related fees) ($4.7 million) as well as charges associated with the termination of certain acquired distribution agreements ($6.6 million);

- Other income benefited from a nontaxable indemnification payment of approximately 14 million ($18 million, or $0.11 per share) received from Pernod Ricard S.A. (Pernod) related to a tax matter in Spain; and

The net impact of foreign exchange hedge results and the impact of translating 2012 amounts at 2011 exchange rates was an unfavorable $17.6 million on net sales and a favorable $0.6 million on operating income.

In the second quarter of 2011, our financial results included the following:

Business separation costs of $8.0 million ($0.05 per share) incurred in connection with the Separation Transactions completed in 2011, principally including financial, legal and other advisory fees related to the Separation Transactions; and

Corporate and other general and administrative overhead costs related to the former Fortune Brands, Inc. management structure of $19 million ($12 million, or $0.08 per share, net of tax).

Business Outlook

We believe that the long-term demographic trends are favorable for the continued profitable growth of western premium spirits. We believe that the continued management and investment focus on the best growth and return opportunities in our brand portfolio and geographic markets, including innovation, advertising and more effective routes to market, position us well for long-term growth. We expect our global spirits market to grow value slightly above 3% during 2012, supported by growth in the U.S. and partially offset by uncertainty in certain international markets, including the Eurozone.

Factors that could adversely affect future results in our business include macro-economic challenges and changes in market trends, competitive pricing and other activities, changes in foreign exchange rates, reductions in customer inventory levels, changes to government financial incentives, increases in commodity and energy prices, future increases in excise taxes and customs duties, continued consolidation in the distributor and retail tiers, increased regulatory enforcement and potential impairment charges. Please see Forward-Looking Statements.

RESULTS OF OPERATIONS

The following discussion and analysis of our results from continuing operations for the three and six month periods ended June 30, 2012 compared to the three and six month periods ended June 30, 2011 addresses changes in net sales, operating expenses and income from continuing operations. Approximately 50 percent of our business is outside the U.S. As a result, changes in foreign exchange rates can have a significant impact on our reported results of operations when translated and presented in U.S. dollars.

Our discussion of results of operations includes the use of comparable net sales growth rates, a non-GAAP measure, in evaluating the Company s sales growth on a year-over-year basis exclusive of items that are not indicative of the underlying sales performance of our business. Comparable net sales growth rates are adjusted for the impact of foreign exchange, acquisitions/divestures and, for the six month periods, the impact of the Australia manufacturing and distribution agreement. This measure should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP, and may also be inconsistent with similar measures presented by other companies.

Consolidated Results for the Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011

Net sales

The following table presents a reconciliation of GAAP net sales growth to comparable net sales growth for the second quarter of 2012 as compared to the second quarter of 2011:

	Consolidated Net Sales Growth
Net sales growth (GAAP)	4%
Foreign exchange rates (a)	3%
Acquisitions/divestitures (b)	(2)%
Comparable net sales (Non-GAAP)	5%

(a) Impacts of translating current year sales at prior year exchange rates and hedging activity.

(b) Impact is primarily due to the acquisition of the Pinnacle assets in the second quarter of 2012 and the acquisition of the Cooley business in the first quarter of 2012.

Net sales increased $25.1 million, or 4%, from $570.4 million in the second quarter of 2011 to $595.5 million in the second quarter of 2012. Comparable net sales increased 5% compared to a strong year-ago quarter that benefited from the year-over-year timing of new product launches. Comparable net sales growth in 2012 was driven by net sales growth in our North America segment, while EMEA and APSA comparable net sales were adversely impacted by the timing of shipments as described in our discussion of segment results below. Volume and price/mix both contributed to the 5% increase in comparable net sales growth. The product mix benefit in 2012 was partially due to the impact of innovations on our product mix and the price benefit was due to targeted price increases for certain brands and markets such as Jim Beam and

Maker s Mark in the U.S. Power Brands and Rising Stars were the primary contributors to our sales growth. Our Power Brands net sales growth on a GAAP basis was 5%. Power Brands grew 6% on a comparable basis adjusting for foreign exchange (+4%) and acquisitions/divestitures (-3%). Net sales of Rising Stars brands increased 20% on a GAAP basis (21% after adjusting for the unfavorable foreign exchange impact).

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Cost of goods sold

Cost of goods sold increased $6.9 million, or 3%, from $241.7 million in the second quarter of 2011 to $248.6 million in the second quarter of 2012. Cost of goods sold increased in the 2012 period due to a combination of higher raw material costs and increased sales volume and product mix. In addition, a year-over-year benefit from foreign currency was substantially offset by increased cost of goods sold related to acquisitions.

Advertising and marketing expense

Advertising and marketing expense decreased $1.3 million, or 1%, from $99.3 million in the second quarter of 2011 to $98.0 million in the second quarter of 2012, primarily due to a favorable foreign currency impact. Advertising and marketing expense decreased despite sales growth due to our front loaded new product launches in the first quarter of 2012. Advertising and marketing expense as a percentage of net sales was 16.5% in the second quarter of 2012 and 17.4% in the second quarter of 2011.

Selling, general and administrative expense

Selling, general and administrative expense increased $6.9 million, or 7%, from $97.8 million in the second quarter of 2011 to $104.7 million in the second quarter of 2012, primarily due to inflationary increases, incremental costs to support growth in emerging markets and approximately $11 million of acquisition and integration-related charges incurred in connection with the acquisition of the Pinnacle assets, including transaction expenses (professional advisory, consulting and other transaction and integration-related fees) ($4.7 million) and charges related to the termination of certain distribution contracts that were acquired in the acquisition ($6.6 million). These unfavorable impacts were partially offset by lower Beam standalone company costs as compared to the former Fortune Brands corporate cost structure ($10 million) and a favorable foreign currency impact ($2 million). Refer to Note 16, *Segment Information*, for more information on estimating standalone corporate cost structure.

Business separation costs

Business separation costs of $13.8 million in the second quarter of 2012 include a $15.1 million pension settlement charge associated with a required $29 million lump sum distribution of benefits paid to former Fortune Brands executives in July 2012, partially offset by the reversal of Separation-related reserves that were determined to be no longer necessary. Business separation costs of $8.0 million incurred in the second quarter of 2011 reflect financial, legal and other advisory fees related to the Separation Transactions that were completed in 2011.

Operating income

Operating income increased $6.0 million, or 5%, from $119.7 million in the second quarter of 2011 to $125.7 million in the second quarter of 2012. On a constant currency basis, North America, EMEA, and APSA operating income increased $9 million, $2 million and $1 million, respectively. The increase in operating income was primarily due to increased gross profit ($18.2 million) from higher sales, which were driven by both volume and price/mix as well as the timing of advertising and marketing programs as described above. The increased gross profit was partially offset by an increase in selling, general and administrative expense ($6.9 million) as described above.

Restructuring and other charges/gains had a negative impact on operating income for the second quarter of 2012, as the increases in acquisition and integration-related charges of $12 million and business separation costs of $6 million more than offset the benefit of lower corporate costs (compared to the former Fortune Brands corporate cost structure) ($10 million).

Interest expense

Interest expense decreased $2.2 million, or 8%, due to lower average borrowings, principally due to debt reduction of approximately $2.3 billion during 2011 related to the Separation Transactions as well as additional debt reductions from scheduled debt payments that were made in 2011. New borrowings of $600 million in May 2012, which were used to fund the acquisition of the Pinnacle assets, partially offset this benefit.

Other (income) expense

Other (income) expense was income of $22.5 million in the second quarter of 2012 compared to exp