

BEAM INC
Form 10-Q
August 09, 2013
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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, 2013

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

13-3295276
(IRS Employer
Identification No.)

510 Lake Cook Road, Deerfield, IL
(Address of principal executive offices)

60015
(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 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 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 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

The number of shares outstanding of the registrant's common stock, par value \$3.125 per share, at June 30, 2013, was 161,916,025.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****BEAM INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF INCOME***(UNAUDITED)*

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|------------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| <i>(In millions, except per share amounts)</i> | | | | |
| Sales | \$ 794.7 | \$ 753.9 | \$ 1,503.7 | \$ 1,409.8 |
| Less: Excise taxes | (157.1) | (156.9) | (294.6) | (286.0) |
| Net sales | 637.6 | 597.0 | 1,209.1 | 1,123.8 |
| Cost of goods sold | 263.5 | 249.4 | 487.7 | 464.2 |
| Gross profit | 374.1 | 347.6 | 721.4 | 659.6 |
| Advertising and marketing expense | 104.1 | 98.0 | 178.9 | 174.7 |
| Selling, general and administrative expense | 105.9 | 104.7 | 208.8 | 205.1 |
| Amortization of intangible assets | 4.3 | 4.3 | 8.8 | 8.5 |
| Gain on sale of brands and related assets | (0.4) | | (13.2) | |
| Restructuring charges | 0.1 | 0.4 | 0.8 | 2.7 |
| Business separation costs | | 13.8 | | 13.8 |
| Operating income | 160.1 | 126.4 | 337.3 | 254.8 |
| Interest expense | 25.7 | 26.9 | 52.1 | 51.4 |
| Loss on early extinguishment of debt | 43.1 | | 43.1 | |
| Other income | (0.8) | (22.5) | (2.2) | (28.4) |
| Income from continuing operations before income taxes | 92.1 | 122.0 | 244.3 | 231.8 |
| Income taxes | 17.5 | 20.1 | 55.3 | 53.6 |
| Income from continuing operations | 74.6 | 101.9 | 189.0 | 178.2 |
| Loss from discontinued operations, net of tax | (0.3) | (0.8) | (1.6) | (0.1) |
| Net income | \$ 74.3 | \$ 101.1 | \$ 187.4 | \$ 178.1 |
| Basic earnings (loss) per common share | | | | |
| Continuing operations | \$ 0.46 | \$ 0.64 | \$ 1.17 | \$ 1.13 |
| Discontinued operations | | (0.01) | (0.01) | |
| Net income | \$ 0.46 | \$ 0.63 | \$ 1.16 | \$ 1.13 |
| Diluted earnings (loss) per common share | | | | |
| Continuing operations | \$ 0.46 | \$ 0.63 | \$ 1.16 | \$ 1.11 |
| Discontinued operations | | (0.01) | (0.01) | |
| Net income | \$ 0.46 | \$ 0.62 | \$ 1.15 | \$ 1.11 |

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| | | | | |
|---|----------|----------|---------|---------|
| Cash dividends per share paid on common stock | \$ 0.225 | \$ 0.205 | \$ 0.45 | \$ 0.41 |
| Weighted-average common shares outstanding basic | 161.7 | 158.0 | 161.1 | 157.5 |
| Weighted-average common shares outstanding diluted | 163.1 | 160.8 | 162.4 | 160.2 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**BEAM INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***(UNAUDITED)*

| <i>(In millions)</i> | Three months ended | | Six months ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 74.3 | \$ 101.1 | \$ 187.4 | \$ 178.1 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | | | | |
| Foreign currency translation (losses) gains | (54.9) | (106.3) | (108.7) | 13.4 |
| Derivative instruments | | | | |
| Derivative instrument gains (losses) | 9.0 | (0.6) | 8.1 | (2.1) |
| Reclassification adjustments included in earnings | (4.5) | 0.4 | (4.2) | 1.2 |
| Tax (expense) benefit | (1.7) | (0.1) | (1.5) | 0.2 |
| Derivative instruments, net | 2.8 | (0.3) | 2.4 | (0.7) |
| Pension and other postretirement benefit adjustments | | | | |
| Reclassification adjustments included in earnings | 2.7 | 15.7 | 4.3 | 16.3 |
| Tax expense | (0.9) | (5.9) | (1.4) | (6.1) |
| Pension and other postretirement benefit adjustments, net | 1.8 | 9.8 | 2.9 | 10.2 |
| Total other comprehensive (loss) income | (50.3) | (96.8) | (103.4) | 22.9 |
| Comprehensive income | \$ 24.0 | \$ 4.3 | \$ 84.0 | \$ 201.0 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

| <i>(In millions, except per share amounts)</i> | June 30, 2013 | December 31, 2012 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 313.1 | \$ 365.7 |
| Accounts receivable from customers | 460.4 | 411.0 |
| Accounts receivable from related parties | 29.0 | 42.0 |
| Inventories | 1,819.1 | 1,763.0 |
| Other current assets | 294.1 | 307.5 |
| Total current assets | 2,915.7 | 2,889.2 |
| Property, plant and equipment | 790.6 | 787.9 |
| Goodwill | 2,524.7 | 2,571.0 |
| Other intangible assets | 2,237.9 | 2,308.1 |
| Investments in affiliates | 50.6 | 51.5 |
| Other non-current assets | 44.2 | 55.0 |
| Total assets | \$ 8,563.7 | \$ 8,662.7 |
| Liabilities | | |
| Current liabilities | | |
| Notes payable and current portion of long-term debt | \$ 443.7 | \$ 480.1 |
| Accounts payable to vendors | 164.8 | 213.6 |
| Accounts payable to related parties | 35.6 | 50.4 |
| Other current liabilities | 401.6 | 506.6 |
| Total current liabilities | 1,045.7 | 1,250.7 |
| Long-term debt | 2,032.6 | 2,024.9 |
| Deferred income taxes | 441.9 | 453.0 |
| Accrued pension and postretirement benefits | 139.5 | 142.8 |
| Other non-current liabilities | 189.0 | 195.5 |
| Total liabilities | \$ 3,848.7 | \$ 4,066.9 |
| Equity | | |
| Common stock, par value \$3.125 per share (750.0 shares authorized; 234.7 shares issued; 161.9 shares outstanding in 2013 and 160.1 shares outstanding in 2012) | 734.0 | 734.0 |
| Paid-in capital | 912.1 | 873.7 |
| Accumulated other comprehensive loss | (289.4) | (186.0) |
| Retained earnings | 6,237.7 | 6,123.4 |
| Treasury stock, at cost | (2,879.4) | (2,949.3) |
| Total equity | 4,715.0 | 4,595.8 |
| Total liabilities and equity | \$ 8,563.7 | \$ 8,662.7 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

| <i>(In millions)</i> | Six months ended June 30, | |
|---|--------------------------------------|----------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net income | \$ 187.4 | \$ 178.1 |
| Adjustments to reconcile net income to cash (used in) provided by operating activities: | | |
| Depreciation | 54.8 | 49.4 |
| Amortization | 5.0 | 3.6 |
| Stock-based compensation | 13.2 | 9.8 |
| Deferred income taxes | (6.3) | 13.5 |
| Loss on early extinguishment of debt | 43.1 | |
| Gain on sale of assets | (12.4) | |
| Pension settlement | 1.1 | 15.1 |
| Changes in assets and liabilities, net of acquisitions and dispositions: | | |
| Accounts receivable | (49.2) | (11.9) |
| Inventories | (105.2) | (88.9) |
| Accounts payable | (46.3) | (41.4) |
| Other assets | 33.0 | 19.2 |
| Accrued expenses and other liabilities | (146.6) | (121.3) |
| Net cash (used in) provided by operating activities | (28.4) | 25.2 |
| Investing activities | | |
| Capital expenditures | (61.4) | (58.7) |
| Proceeds from the disposition of assets | 70.0 | 0.7 |
| Acquisitions, net of cash acquired | | (674.4) |
| Return of investment in affiliates | 1.5 | 2.0 |
| Cash transfer from Fortune Brands Home & Security, Inc. in spin-off | | 6.0 |
| Net cash provided by (used in) investing activities | 10.1 | (724.4) |
| Financing activities | | |
| Increase (decrease) in short-term debt, net | 7.5 | (22.7) |
| Repayment of long-term debt | (571.0) | |
| Issuance of long-term debt | 495.9 | 592.9 |
| Dividends to stockholders | (72.4) | (64.7) |
| Proceeds from stock-based awards, net | 87.0 | 79.5 |
| Tax benefit on stock-based awards | 7.7 | 4.5 |
| Debt issuance costs | (0.5) | (1.0) |
| Net cash (used in) provided by financing activities | (45.8) | 588.5 |
| Effect of foreign exchange rate changes on cash | 11.5 | 1.7 |
| Net decrease in cash and cash equivalents | (52.6) | (109.0) |
| Cash and cash equivalents at beginning of period | 365.7 | 218.3 |
| Cash and cash equivalents at end of period | \$ 313.1 | \$ 109.3 |

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See Notes to Unaudited Condensed Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Description of Business

Beam Inc. and its subsidiaries operate in the beverage alcohol industry. References to we, our, us, Beam and the Company refer to Beam Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires. The Company's reportable segments are North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA), as further discussed in Note 17, *Segment Information*.

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

Basis of Presentation and Principles of Consolidation

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

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 unaudited 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 unaudited 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, 2012. Interim results may not be indicative of results for a full year.

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. 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.

Revision of Prior Period Financial Statements

In connection with preparing our consolidated financial statements for the three and six months ended June 30, 2013, we identified errors that affected prior interim and annual periods related to the timing of recognition of sales of non-branded spirits, primarily Canadian whisky. We evaluated whether our previously issued consolidated financial statements were materially misstated considering the guidance in Accounting Standards Codification (ASC) 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality) and concluded that the errors individually and in the aggregate were not material to any of our previously issued financial statements. In accordance with accounting guidance in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we will revise previously issued financial statements to correct the effect of the errors. The correction of the errors decreased net sales, gross profit, income from continuing operations and earnings per share from continuing operations by \$6.2 million, \$2.9 million, \$2.2 million and \$0.01, respectively, for the three months ended March 31, 2013 and increased inventory and deferred revenue by \$29.4 million and \$48.3 million, respectively, at March 31, 2013. The correction of the errors decreased net sales, gross profit, income from continuing operations and earnings per share from continuing operations by \$6.2 million, \$1.4 million, \$1.1 million and \$0.01, respectively, for the year ended December 31, 2012 and increased inventory and deferred revenue \$26.1 million and \$42.1 million, respectively, at December 31, 2012. The correction of the errors decreased net sales, gross profit, income from continuing operations and earnings per share from continuing operations by \$12.1 million, \$5.4 million, \$4.1 million and \$0.03, respectively, for the year ended December 31, 2011 and increased inventory and deferred revenue \$21.3 million and \$35.9 million, respectively, at December 31, 2011. The cumulative impact of the correction of errors prior to 2011 was a decrease in stockholders' equity of \$6.9 million.

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We will also revise previously issued financial statements to correct for the following immaterial out of period adjustments identified in connection with preparing our second quarter 2013 financial statements and in 2012:

We will revise our first quarter 2013 and 2012 and 2011 financial statements to reflect other out-of-period errors identified during the current quarter. As a result of correcting these out of period adjustments, gross profit, income from continuing operations, and earnings per share from continuing operations increased \$1.1 million, \$0.7 million and \$0.00, respectively, for the three months ended March 31, 2013. The correction of these out of period adjustments decreased gross profit, income from continuing operations and earnings per share from continuing operations by \$1.0 million, \$0.6 million and \$0.00, respectively, for the year ended December 31, 2012 and decreased gross profit, income from continuing operations and earnings per share from continuing operations by \$4.5 million, \$2.7 million and \$0.02, respectively, for the year ended December 31, 2011. The cumulative impact of these other immaterial out of period adjustments prior to 2011 was a decrease to stockholders' equity of \$1.0 million.

During 2012, we recorded out of period adjustments to correct errors related to income taxes from continuing and discontinued operations that we previously disclosed. The adjustments increased (decreased) income tax expense related to continuing operations and discontinued operations \$6.9 million and \$(2.5) million, respectively. The reversal of these out-of-period adjustments and the recording of the items in the proper periods had the following impacts to our revised financial statements:

income from continuing operations and earnings per share from continuing operations for the year ended December 31, 2012 increased \$6.9 million and \$0.04, respectively, and income from continuing operations and earnings per share from continuing operations decreased \$6.9 million and \$0.04, respectively, for the year ended December 31, 2011; and

loss from discontinued operations and loss per share from discontinued operations for the year ended December 31, 2012 increased \$2.5 million and \$0.02, respectively, and income from discontinued operations and earnings per share from discontinued operations increased \$5.0 million and \$0.03, respectively, for the year ended December 31, 2011 and decreased \$2.5 million and \$0.02, respectively, for the year ended December 31, 2010.

The impacts of the revisions on our financial statements are shown in the following tables.

The following tables present the effect of these corrections on the Company's Consolidated Statements of Income:

| (In millions, except per share amounts) | Three Months Ended March 31, 2013 | | | Three Months Ended March 31, 2012 | | |
|---|-----------------------------------|------------|------------|-----------------------------------|------------|------------|
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| | | | | | | |
| Sales | \$ 715.2 | \$ (6.2) | \$ 709.0 | \$ 662.9 | \$ (7.0) | \$ 655.9 |
| Net sales | 577.7 | (6.2) | 571.5 | 533.8 | (7.0) | 526.8 |
| Cost of goods sold | 228.6 | (4.4) | 224.2 | 219.1 | (4.3) | 214.8 |
| Gross profit | 349.1 | (1.8) | 347.3 | 314.7 | (2.7) | 312.0 |
| Operating income | 179.0 | (1.8) | 177.2 | 131.1 | (2.7) | 128.4 |
| Income from continuing operations before income taxes | 154.0 | (1.8) | 152.2 | 112.5 | (2.7) | 109.8 |
| Income taxes | 38.2 | (0.4) | 37.8 | 34.1 | (0.6) | 33.5 |
| Income from continuing operations | 115.8 | (1.4) | 114.4 | 78.4 | (2.1) | 76.3 |
| Net income | 114.5 | (1.4) | 113.1 | 79.1 | (2.1) | 77.0 |
| Basic earnings per common share: | | | | | | |
| Continuing operations | \$ 0.72 | \$ (0.01) | \$ 0.71 | \$ 0.50 | \$ (0.01) | \$ 0.49 |
| Net income | 0.71 | (0.01) | 0.70 | 0.50 | (0.01) | 0.49 |
| Diluted earnings per common share: | | | | | | |
| Continuing operations | \$ 0.72 | \$ (0.01) | \$ 0.71 | \$ 0.49 | \$ (0.01) | \$ 0.48 |
| Net income | 0.71 | (0.01) | 0.70 | 0.49 | (0.01) | 0.48 |

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| (In millions, except per share amounts) | Three Months Ended June 30, 2012 | | | Six Months Ended June 30, 2012 | | |
|---|----------------------------------|------------|------------|--------------------------------|------------|------------|
| | As Previously Reported | Adjustment | As Revised | As Previously Reported | Adjustment | As Revised |
| Sales | \$ 752.4 | \$ 1.5 | \$ 753.9 | \$ 1,415.3 | \$ (5.5) | \$ 1,409.8 |
| Net sales | 595.5 | 1.5 | 597.0 | 1,129.3 | (5.5) | 1,123.8 |
| Cost of goods sold | 248.6 | 0.8 | 249.4 | 467.7 | (3.5) | 464.2 |
| Gross profit | 346.9 | 0.7 | 347.6 | 661.6 | (2.0) | 659.6 |
| Operating income | 125.7 | 0.7 | 126.4 | 256.8 | (2.0) | 254.8 |
| Income from continuing operations before income taxes | 121.3 | 0.7 | 122.0 | 233.8 | (2.0) | 231.8 |
| Income taxes | 20.0 | 0.1 | 20.1 | 54.1 | (0.5) | 53.6 |
| Income from continuing operations | 101.3 | 0.6 | 101.9 | 179.7 | (1.5) | 178.2 |
| Net income | 100.5 | 0.6 | 101.1 | 179.6 | (1.5) | 178.1 |
| Basic earnings per common share: | | | | | | |
| Continuing operations | \$ 0.64 | \$ | \$ 0.64 | \$ 1.14 | \$ (0.01) | \$ 1.13 |
| Net income | 0.63 | \$ | 0.63 | 1.14 | (0.01) | 1.13 |