BEAM INC
Form 10-K
February 26, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

Commission file number 1-9076

Beam Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3295276**
(State or other jurisdiction of	**(IRS Employer**

incorporation or organization)	**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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $3.125 per share	**New York Stock Exchange, Inc.**
8 $^{5}/_{8}$% Debentures Due 2021	**New York Stock Exchange, Inc.**
7 $^{7}/_{8}$% Debentures Due 2023	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 aggregate market value of the registrant s common stock held by non-affiliates of the registrant at June 29, 2012 (the last day of our most recent second quarter) was $9,887,313,464 based on the closing price as reported on the New York Stock Exchange. The number of shares outstanding of the registrant s common stock, par value $3.125 per share, at February 6, 2013, was 160,326,727.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2013 (to be filed not later than 120 days after the end of the registrant s fiscal year) (the 2013 Proxy Statement) is incorporated by reference into Part III hereof.

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PART I

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Actual results, performance or achievements could differ materially from those projected in the forward-looking statements as a result of a number of risks, uncertainties and other factors. For a discussion of important factors that could cause our results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by our forward-looking statements, please refer to Item 1. Business Forward-Looking Statements, Item 1A. Risk Factors, and Item 7. Management s Discussion and Analysis of Financial Conditions and Results of Operations below.

Item 1. Business.
Overview

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, tequila, Scotch whisky, Canadian whisky, vodka, cognac, rum, cordials, and ready-to-drink pre-mixed cocktails. Our diverse portfolio includes several of the world s top premium spirits brands. We use the terms Beam, the Company, we, us, and our to refer to the business of Beam Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

Our portfolio consists of brands we identify as Power Brands, Rising Stars, Local Jewels and Value Creators. The Power Brands are our core brand equities, with global reach in premium categories and large annual sales volume. Rising Stars are smaller premium brands in priority markets that we believe have excellent growth profiles and receive substantial brand investment to drive expansion. Brands identified as Local Jewels act as Power Brands in local markets. Value Creators include a variety of brands providing scale and profit across multiple categories. Power Brands, Rising Stars, and combined Local Jewels/Value Creators (including non-branded sales) represent approximately 60%, 15%, and 25%, respectively, of our net sales. Our Power Brands and Rising Stars, which are the focus of our brand investment, are listed below.

Power Brands:	Jim Beam Bourbon, Maker s Mark Bourbon, Sauza Tequila, Courvoisier Cognac, Canadian Club Whisky, Teacher s Scotch, and Pinnacle Vodka
Rising Stars:	Laphroaig Scotch, Knob Creek Bourbon, Basil Hayden s Bourbon, Kilbeggan Irish Whiskey, Cruzan Rum, Hornitos Tequila, Skinnygirl Cocktails, and Sourz Liqueurs

The principal markets for our spirits products are the United States, Australia, Germany, Spain, the United Kingdom, and Canada, and we continue to invest in emerging markets such as India, Brazil, Mexico, Russia, Central Europe, Asia, and other geographies. We operate our business on the basis of geographical regions, consisting of North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA).

Operating Strategy

We strive to enhance shareholder value by executing our Vision Into Action strategy, including:

- profitably building our core distilled spirits brands to drive sales and earnings growth and enhance returns on a long-term basis; and

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positioning our brands to outperform their respective markets by:

- Creating Famous Brands
- Building Winning Markets
- Fueling Our Growth

We seek to Create Famous Brands by building our core brand equities, principally for our Power Brands and Rising Stars. To strengthen our brands and their connection with consumers, we invest in impactful communications, such as television advertising, digital and print media, and local market in-store marketing. We also seek to create profitable growth through product innovation, expanded category participation, speed to market and synergy-driven acquisitions.

We seek to Build Winning Markets through effective distribution and enhancing the presence of our brands, particularly in key markets. We amplify our scale in select markets by aligning with key strategic partners, such as Coca-Cola Amatil in Australia and The Edrington Group in more than 20 global markets throughout the world. These alliances complement our distribution in other key markets, including our U.S. sales organization and performance-based contracts with partners such as Southern Wine & Spirits in the U.S. and our company-owned distribution in markets such as Germany and India.

We seek to Fuel Our Growth by optimizing our supply chains, designing products to maximize value for consumers, exercising disciplined capital and cost management, and building an effective and efficient organization. We believe that we promote organizational excellence by developing a winning culture with highly engaged employees.

Acquisitions, Divestitures and Other Strategic Initiatives

While our first priority is internal growth, we also strive to enhance shareholder value through acquisitions and divestitures, joint ventures, alliances, and other strategic initiatives.

In May 2012, we acquired the Pinnacle vodka and Calico Jack rum brands and certain related assets for approximately $608 million. The synergy-driven acquisition of Pinnacle vodka significantly enhanced Beam s U.S. presence in the vodka category while creating opportunities to drive cost savings and expand distribution. In January 2012, we completed the acquisition of Cooley Distillery plc, an award-winning independent Irish whiskey producer. In March 2011, we acquired the Skinnygirl ready-to-drink cocktail business. With the Cooley and Skinnygirl transactions, Beam entered two of the industry s fastest growing categories.

On an ongoing basis, we review our portfolio of brands and evaluate options to increase shareholder value. In addition to acquisitions, divestitures, joint ventures and alliances, we consider other corporate strategies intended to enhance shareholder value, including share repurchases and changes to our dividend payments. We cannot predict whether or when any particular strategy might be implemented or what the financial effect thereof might be upon our results of operations, cash flows or financial condition.

Segments

Our three reportable segments are the geographic regions of North America, EMEA and APSA. Each segment is engaged in the manufacture and sale of distilled spirits products. Approximately 55% of our consolidated net sales were generated in the U.S. (based on country of destination) in the year ended December 31, 2012. For additional financial information by segment, refer to Note 21, *Segment Information*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report. For a description of the risks attendant to operating outside the United States, see Item 1A Risk Factors.

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Trademarks

We sell our products under trademarks, trade dress, brand names, and trade names that are important to our continued success. We own most of our key trademarks, including the trademarks for each of our Power Brands, but we also use trademarks under long-term licenses for brands such as DeKuyper, which is produced and sold in the U.S. and Mexico under a license of unlimited duration. Our business could be adversely affected by the loss of any major brand or by material infringement of our intellectual property rights. We are also subject to risks and costs associated with the enforcement of our intellectual property rights. Moreover, the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products from infringement by others.

Seasonality

The peak season for our business is the fourth calendar quarter due to holiday buying. Approximately 29%, 28%, and 30% of our net sales for the fiscal years ended December 31, 2012, 2011, and 2010, respectively, were in the fourth quarter.

Customers and Distributors

We use different business models to market and distribute our products in different regions of the world. In the U.S., we sell our products either to wholesale distributors for resale to retail outlets or, in those states that control alcohol sales, to state governments who then sell them to retail customers and consumers. In our other global markets, we use a variety of route-to-market models, including third party distributors, global or regional duty free customers, other spirits producers and our joint ventures with The Edrington Group Ltd. During the year ended December 31, 2012, our top three customers (Southern Wine & Spirits, the Company s 50% owned joint ventures with The Edrington Group, and Coca-Cola Amatil) collectively accounted for 40% of our net sales. Accounts receivable from these three customers were similarly concentrated at December 31, 2012, as were net sales and accounts receivable in prior years. We believe our relationships with our top three customers are good, collection of amounts due from these three customers at December 31, 2012 are reasonably assured, and a loss of any of these customers would be offset by the availability of other distributors for our products with minimal disruption to our operations.

Competition

The global distilled spirits industry is very competitive. Based on volume information from independent industry statistical sources, we are the fourth largest premium spirits company in the world (the largest U.S. based) as well as the second largest in the U.S. We compete on the basis of product quality, brand image, innovation, price, and service in response to consumer preferences. While the industry is highly fragmented, major competitors include Bacardi Limited, Brown-Forman Corporation, Constellation Brands, Inc., Davide Campari Milano-S.p.A., Diageo PLC, Pernod Ricard S.A., and Rémy Cointreau S.A.

Raw Materials and Other Supplies

The principal raw materials for the production, storage and aging of distilled products are corn and other grains for whiskies and other spirits, agave for tequila, molasses for rum, grapes for cognac and fortified wines, new or used oak barrels, and plastic and glass for bottles. These materials are generally readily available from a number of sources, except that new oak barrels are available from only a few sources. Beam has a long-term supply agreement with a third-party supplier for the purchase of new oak barrels. This agreement requires a minimum of three years notice prior to termination. In addition, we purchase barrels from two other suppliers on a year-to-year basis pursuant to purchase orders. We purchase grains, malts, and grapes primarily from independent growers under long-term supply contracts or on the spot market. We grow our own agave supply and periodically purchase agave on the spot market. From time to time, these raw materials are affected by weather and other forces that may impact production and quality.

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Inventory

Because whiskeys/whiskies, cognacs, brandies, rum, and some tequila varieties are aged for various periods (generally from three to ten years for whiskies, for example), we maintain substantial inventories of maturing product in warehouse facilities. Production of maturing inventory is generally scheduled to meet demand years into the future, and production schedules are adjusted from time to time to bring inventories into balance with estimated future demand. In addition, we may, from time to time, purchase or sell maturing spirits to manage estimated future demand.

Regulatory Environment

The production, storage, transportation, distribution and sale of our products are subject to regulation by federal, state, local, and foreign authorities. Various countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits and fortified wines in whole or in part.

The Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department regulates the U.S. spirits industry with respect to production, blending, bottling, sales, advertising, and transportation of industry products. Also, each state in the United States regulates the advertising, promotion, transportation, sale, and distribution of such products. Similar regulatory regimes exist in most of our other major markets.

In many of the key markets for our business, distilled spirits are subject to federal excise taxes and/or customs duties, as well as state/provincial, local, and other taxes. Beverage alcohol sales could be adversely impacted by increases to excise tax rates, which are considered from time to time by U.S. states and municipalities and in other key markets for our business. The effect of any future excise tax increases in any jurisdiction cannot be determined, but it is possible that any future excise tax increases could have an adverse effect on our business, financial condition, and results of operations.

Environmental Matters

The Company is subject to both U.S. and international laws and regulations relating to the protection of the environment. In the U.S., the laws and regulations include the Clean Air Act, the Clean Water Act, and Superfund (the environmental program established in the Comprehensive Environmental Response, Compensation, and Liability Act to address hazardous waste sites), which imposes joint and severable liability on each potentially responsible party. Outside the U.S., we are subject to applicable multi-national, national, and local environmental laws and regulations in the countries in which we do business. Refer to Note 18, *Commitments and Contingencies*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information about pending environmental matters.

Employees

As of December 31, 2012, the Company and its subsidiaries had approximately 3,400 employees, of which approximately 1,700 were based in the United States. Approximately 33% of our employees are covered by collective bargaining agreements, of which approximately 7% are subject to agreements that will expire within one year from the filing date of this Form 10-K. We believe our employee relations are good.

Company History

The Company was incorporated under the laws of Delaware in 1985 and conducted no business until 1986. American Brands, Inc., a New Jersey corporation organized in 1904 (American New Jersey), was merged into The American Tobacco Company in December 1985, and the shares of the principal first-tier subsidiaries formerly held by American New Jersey were transferred to the Company. In addition, the Company assumed all liabilities and obligations in respect of the public debt securities of American New Jersey outstanding immediately prior to the merger. In May 1997, the Company s name was changed from American Brands, Inc. to Fortune Brands, Inc.

In December 2010, the Company announced a plan to separate the Company s Home & Security, Golf and Spirits business segments. The Company completed the sale of the Golf business in July 2011 and completed the tax-free spin-off of the Home & Security business in October 2011 (the Spin-Off). Following the completion of the Spin-Off, the Company became a standalone spirits company under the name Beam Inc. The sale of the Golf business and the Spin-Off are together referred to in this Form 10-K as the Separation Transactions.

Foreign Operations

For information about the Company s reportable segments and for additional geographic information about net sales and long-lived assets, please refer to Note 21, *Segment Information*, of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report on Form 10-K. Also, for a discussion of certain risks attendant to our foreign operations, see Risk Factors in Item 1A.

Executive Officers of the Registrant

See Item 10, Directors, Executive Officers and Corporate Governance in Part III.

Additional Information

The Company s website address is www.beamglobal.com. The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to these reports are available free of charge on the Company s website as soon as reasonably practicable after the reports are filed or furnished electronically with the Securities and Exchange Commission (SEC). We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Principles, Code of Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, Charters for the Committees of our Board of Directors, and other information related to the Company. Additionally, in 2012 we filed with the New York Stock Exchange (NYSE) our 303A CEO Certification regarding the Company s compliance with the NYSE s corporate governance listing standards.

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC.

Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results, or states our intentions, beliefs, expectations and targets for the future. Readers are cautioned that these are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties. Words such as anticipates, believes, continues, estimates, expects, targets, goal, in opportunity, plans, potential, projects, forecasts, should, will, seeks, strives, and similar expressions are intended to identify such forward-looking statements. Readers are cautioned that these forward-looking statements speak only as of the date on which this report is filed with the SEC, and the Company does not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after such date. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to:

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general economic conditions;

competitive innovation and marketing pressures, including price;

changes in consumer preferences and trends;

financial and integration risks associated with acquisitions, joint ventures, and alliances, as well as potential divestitures;

the price and availability of raw materials and energy;

risks associated with doing business outside the United States, including changes in laws, governmental regulations and policies, compliance with anti-corruption statutes, civil and political unrest, and local labor conditions;

our ability to manage organizational productivity and global supply chains effectively;

the impact of excise tax increases and customs duties on our products or changes to government financial incentives;

fluctuations in currency exchange rates;

our ability to reach agreement on, maintain or renegotiate key agreements;

potential liabilities, costs and uncertainties of litigation;

our ability to attract and retain qualified personnel;

changes to laws and regulations;

downgrades of the Company s credit ratings;

dependence on performance of distributors, promoters and other marketing arrangements;

product quality issues;

costs of certain employee and retiree benefits and returns on pension assets;

tax law changes or interpretation of existing tax laws;

ability to secure and maintain rights to intellectual property, including trademarks, trade dress, and tradenames;

impairment in the carrying value of goodwill or other acquired intangible assets;

disruptions at production facilities and supply/demand forecasting uncertainties;

breaches of data security; and

other risks and uncertainties described from time to time in the Company s filings with the Securities and Exchange Commission. Further information about factors that could materially affect Beam, including our results of operations and financial condition, is contained in the Risk Factors section in Part I, Item 1A of this report.

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Item 1A. Risk Factors.
We believe that the following risks and uncertainties may be material to our business. Additional risks and uncertainties that we currently consider to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business, results of operations, cash flows, and financial condition could be materially and adversely impacted.

Our results of operations, cash flows and financial condition may be adversely impacted by global economic conditions.

Stable economic conditions globally, including strong employment, consumer confidence and credit availability, are important not only to the basic health of our consumer markets, but also to our own financial condition. The uncertainty related to high levels of government and consumer debt and unstable geopolitical environments in many parts of the world may continue to put pressure on global economic conditions. There remain other challenges in the global economy as well, including high unemployment rates, low consumer confidence and fragile credit and housing markets. As a result, consumers increased price consciousness may endure, which may affect consumers willingness to pay for premium brands as well as the overall level of spirits consumption, particularly in bars, restaurants, nightclubs and other public environments where consumers drink spirits. Furthermore, our suppliers and customers could experience cash flow problems, increased costs or reduced availability of financing, credit defaults, and other financial hardships. These factors may increase our bad debt expense, cause us to reduce the levels of unsecured credit that we provide to customers and otherwise adversely impact our results of operations, cash flows and financial condition. A prolonged period of global economic stagnation may impact our access to capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially impact our ability to finance operations, pay dividends, complete acquisitions and repurchase shares in the future.

Demand for our spirits products may be adversely affected by many factors, including changes in consumer preferences and trends.

Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health initiatives, product innovations, changes in travel, vacation or leisure activity patterns and a downturn in economic conditions, which may reduce consumers willingness to purchase distilled spirits products or cause a shift in consumer preferences toward beer, wine or non-alcoholic beverages. In addition, concerns about health issues relating to alcohol consumption, dietary effects, regulatory action or any litigation against companies in the industry may have an adverse effect on our business. Global economic conditions or market trends could cause consumer preferences to trend away from our premium spirits brands and categories toward lower cost alternatives, which may also adversely impact our results of operations and cash flows.

We may not be successful in introducing new products and product innovations.

Our success depends in part on successful new products and product innovations. While we devote significant focus to the development of new products, and to the research and development and technology functions of our business, we may not be successful in their development, or these new products may not be commercially successful. Inability to attract consumers to our product innovations relative to our competitors products would likely adversely affect our growth rates and financial performance over time.

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Risks associated with our strategic acquisitions, divestitures, joint ventures, and alliances could adversely affect our business.

We continue to consider acquisitions, divestitures, joint ventures, and alliances as a means of enhancing shareholder value. Acquisitions and joint ventures involve risks and uncertainties, including:

- difficulties integrating acquired companies and operating joint ventures;
- retaining the acquired businesses customers and brands, and achieving the expected financial results and benefits of transactions, such as cost savings, and revenue increases from expanded geographic or product presence;
- loss of key employees from acquired companies;
- implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- exposure to unknown liabilities; and
- diversion of management s attention from other business concerns.

Future acquisitions could cause us to incur additional debt or issue shares of capital stock, which could lead to dilution in earnings per share and return on capital.

With respect to potential divestitures, we may encounter several risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management s attention from other business concerns, the disruption of our business, the potential loss of key employees and the retention of uncertain environmental or other contingent liabilities related to the divested business. In addition, divestitures may result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations.

Risks associated with the availability and price volatility of raw materials and energy could adversely affect our business.

We buy commodities such as corn and other grains, molasses, grapes, glass and plastic for the production, packaging and distribution of our products and grow agave plants for tequila production. Moreover, the production of our products depends heavily upon the availability of sufficient quantities of quality water. Accordingly, we are exposed to risks associated with raw material price volatility arising from supply conditions, geopolitical and economic variables, and other unpredictable external factors. Changes in weather patterns, hydrologic cycles and the frequency and severity of extreme weather and natural disasters may have a negative effect on agricultural production or our access to quality water. Reduced availability or increases and volatility in the prices of these raw materials, as well as products sourced from third parties, and energy used in making, distributing and transporting our products, could increase the manufacturing and distribution costs of our products. In the past we have been able to mitigate the impact of these cost increases through productivity improvements and pricing adjustments, but there is no assurance that we will be able to offset such cost increases in the future.

While uncertainties exist in the legislative and regulatory processes regarding environmental issues, additional regulatory requirements in the U.S. and other countries may increase our operational costs due to the higher cost of compliance and market rates for energy, raw materials and key imports. New legislation or regulation relating to environmental issues could also increase energy prices, and the cost of our products, which we may attempt to offset with price increases that could lead to reduced consumer demand for our beverage alcohol brands.

We manufacture, source and sell many products internationally and are exposed to risks associated with doing business globally.

We manufacture, source or sell our products in numerous countries around the world. Accordingly, we are subject to risks associated with potential disruption caused by changes in political, economic and social environments, including civil and political unrest, terrorism, possible expropriation, local labor conditions, changes in laws and governmental regulations and policies in many countries outside the United States. We are also subject to U.S. laws affecting the activities of U.S. companies abroad, including tax laws and laws regarding the enforcement of contract and intellectual property rights. Our success will depend, in part, on our ability to overcome the challenges we encounter with respect to these factors and other matters affecting U.S. companies with global operations.

Certain countries in which we operate are reported to have high levels of corruption. While we are committed to doing business in accordance with applicable anti-corruption laws, our code of conduct and ethics, and other Company policies, we remain subject to the risk that our affiliates or our agents, such as distributors and promoters, may take action determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 (FCPA), the U.K. Bribery Act of 2010 or local equivalent laws. Any determination that our operations or activities are not, or were not, in compliance with U.S. or foreign laws or regulations could result in the imposition of fines, interruptions of business, loss of supplier, vendor or other third party relationships, termination of necessary licenses and permits, and other legal or equitable sanctions. As discussed in Note 18, *Commitments and Contingencies*, we commenced an investigation into whether our India business has been conducted in compliance with Company policies, the FCPA and other applicable law. It is reasonably possible that any expenses and liabilities resulting from this matter could have a material impact on our results of operations, cash flows and financial condition. In addition, the ongoing conduct of the investigation and our implementation of remedial measures will likely continue to have a disruptive effect on our India business over the near term.

If we are unable to efficiently manage our organizational productivity and global supply chain, then our business could be adversely affected.

We need to continually evaluate our organizational productivity and global supply chains and assess opportunities to reduce costs. We must also enhance quality, speed and flexibility to meet changing and uncertain market conditions. Our success depends in part on refining our cost structure and supply chains so that we have flexibility and are able to respond to market pressures to protect profitability and cash flow or ramp up quickly and effectively to meet demand. Failure to achieve the desired level of quality, capacity or cost reductions could adversely affect our business. Despite our efforts to control costs and increase efficiency in our facilities, increased competition could still cause us to realize lower operating margins and profitability.

Changes in excise taxes, incentives and customs duties related to distilled spirits could adversely affect our business.

Distilled spirits are subject to excise taxation in many markets at the federal, state and/or local level. Any increase in federal, state or local excise taxes could have an adverse effect on our business by increasing prices and reducing demand, particularly if excise tax levels increase substantially relative to those for beer and wine. For example, in April 2008 the Australian government increased excise taxes specifically on ready-to-drink spirits products by 70%, equating to a 25% price increase to consumers, which adversely impacted demand for Jim Beam and Cola and other pre-mixed products. We are also the recipient of certain U.S. governmental economic development incentives in connection with our manufacture of rum. The amount and availability of these incentives in future periods cannot be assured. Any reduction in incentives would have an adverse effect on our business by increasing production costs. In addition, distilled spirits products are the subject of customs duties in many countries around the world. An increase in customs duties in the markets where we sell our products could also adversely affect our results of operations and cash flows.

We are exposed to fluctuations in currency exchange rates that could negatively impact our business.

While we hedge certain foreign currency transactions, a change in the value of local currencies where we manufacture, source or sell our products impacts our financial statements when translated into U.S. dollars. In addition, fluctuations in currency can adversely impact the cost position in local currency of

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our products, making it more difficult for us to compete. The exchange rates between some of the major foreign currencies in which we operate (including the Australian dollar, British pound sterling, euro, Canadian dollar, Indian rupee and Mexican peso) and the U.S. dollar have fluctuated significantly in recent years and are likely to continue to do so in the future.

Our operations may be adversely affected by failure to maintain or renegotiate distribution, supply, manufacturing or license agreements on favorable terms.

We have a number of distribution, supply, manufacturing and license agreements for our spirits products. These agreements vary depending on the particular brand, but tend to be for a fixed number of years. There can be no assurance that we will be able to renew these agreements on favorable terms or that these agreements will not be terminated. Termination of these agreements or failure to renew these agreements on favorable terms could have a negative effect on our results of operations, cash flows and financial condition.

Potential liabilities and costs from litigation and other legal proceedings could adversely affect our business.

From time to time we are subject to various lawsuits, claims, disputes and investigations in the normal conduct of our 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. If decided unfavorably, these actions could adversely affect our results of operations, cash flows and financial condition. In addition, because litigation and other legal proceedings can be costly to defend, even actions that are ultimately decided in our favor could have a negative impact on our results of operations and cash flows.

Numerous legal actions are pending in various jurisdictions against leading tobacco manufacturers based upon allegations that cancer and other ailments have resulted from tobacco use. The Company has been named in some of these actions relating to tobacco products made and sold by former subsidiaries of the Company. See Item 3 Legal Proceedings. It is not possible to predict the outcome of pending tobacco-related litigation, and it is possible that some of these actions could be decided unfavorably. Although the Company never made or sold tobacco and is indemnified for any losses, damages claimed in some of these cases range into the billions of dollars and, as a result, any failure of the indemnitor to satisfy its indemnification obligations could result in a material adverse affect on our results of operations, cash flows and financial condition.

We face substantial competition in our industry.

We compete on the basis of product taste and quality, brand image, price, service and ability to innovate in response to consumer preferences. It is possible that our competitors may either respond to industry conditions or consumer trends more rapidly or effectively or resort to price competition to sustain market share, both of which could adversely affect our sales and profitability. Consumers may also respond negatively to any price changes we seek to implement. We also face a risk that continued consolidation by other distilled spirits companies could cause us to experience competitive disadvantages. Our inability to manage these and other competitive factors successfully could adversely affect our results of operations, cash flows and financial condition.

Our failure to attract and retain qualified personnel could adversely affect our business.

Our success depends in part on the efforts and abilities of our senior management team and other key employees. Their motivation, skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract, motivate and retain members of our senior management team and other key employees could have a negative effect on our operating results.

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Changes in laws, regulations and regulatory standards could adversely affect our business.

Our business is subject to extensive domestic and international regulatory requirements regarding distribution, production, labeling, and marketing. Changes to regulation of the beverage alcohol industry could include increased limitations on advertising and promotional activities or other non-tariff measures that could adversely impact our business. In addition, we face domestic and international regulations pertaining to the health and safety of our employees and consumers as well as the impact of our business on the environment. Compliance with these health, safety and environmental regulations may require us to alter our manufacturing processes and our sourcing. Such actions, as well as changes in our competitive position that may result from our inability to effectively and timely comply with such actions, could adversely impact our business.

Downgrades of our credit ratings could adversely affect our business.

A downgrade of our credit rating by Moody s, Standard & Poor s or Fitch could result in an increase to our interest expense and cost of capital and impact our future ability to access credit, particularly if the downgrade were to a non-investment grade rating. Downgrades of our credit ratings would also adversely affect the fair value and marketability of our outstanding debt. In addition, a downgrade could weaken operating cash flow and liquidity, potentially adversely impacting our ability to pay dividends, fund acquisitions and repurchase shares.

We rely on the performance of wholesale distributors and other marketing arrangements and could be adversely affected by distributor consolidation, poor performance or other disruptions in our distribution channels and customers.

We use different business models to market and distribute our products in different regions of the world. In the U.S., we sell our products either to wholesale distributors for resale to retail outlets or, in those states that control alcohol sales, to state governments who then sell them to retail customers and consumers. In our other global markets, we use a variety of route-to-consumer models, including in many markets, reliance on other spirits producers to market and sell our products. The replacement, poor performance or financial default of a major distributor or one of its major customers could adversely affect our business. Industry consolidation could also adversely affect our margins and profitability. While we seek to take advantage of the efficiencies and unique opportunities that large customers can offer, large customers can also seek to make significant changes in their volume of purchases, represent a large number of competing products, negotiate more favorable terms and seek price reductions, which could negatively impact our financial results.

Product recalls or other product liability claims could materially and adversely affect our sales.

The success of our brands depends upon the positive image that consumers have of those brands. We could decide to, or be required to, recall products due to suspected or confirmed product contamination, spoilage or other adulteration. Any of these events could adversely affect our sales. Moreover, selling products for human consumption involves inherent risks. A significant product liability judgment or widespread product recall may negatively impact the sales and profitability of the affected brand or brands for a period of time depending on product availability, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, resulting negative publicity could adversely affect our reputation with existing and potential customers and our corporate and brand image.

Costs and funding requirements of certain employee and retiree benefits may continue to accelerate.

Increases in the costs and funding of medical and pension benefits may continue and negatively affect our business as a result of increased usage of medical benefits by current and retired employees, medical cost inflation, the performance of our pension plan assets, potential reductions in the discount rate used to determine the present value of our benefit obligations, and changes in legal and accounting standards related to employee and retiree benefits.

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Future tax law changes and/or interpretation of existing tax laws may adversely affect our effective income tax rate and the resolution of unrecognized tax benefits.

We are subject to income taxation in the U.S. as well as internationally. It is possible that future income tax legislation may be enacted that could have a material impact on our worldwide income tax provision. We are routinely audited by income tax authorities in many jurisdictions. Although we believe that our recorded tax estimates are reasonable and appropriate, there are inherent uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in our income tax provisions and accruals, which may have a corresponding material impact on our results of operations, cash flow and financial position to the extent not previously recorded. In addition, it is possible that future income tax legislation may be enacted that could have a material impact on our worldwide income tax provision.

Historical financial statements may not be reflective of our future results of operations, cash flows, and financial condition.

Although we believe that this report contains material information necessary to make an informed assessment of our financial position and profits and losses for each of the periods presented and prospects, historical financial statements do not represent what our results of operations, cash flows, or financial position will be in the future. This is particularly true in light of the significant changes to the Company s business and operations following the Separation Transactions during 2011.

Our inability to secure and maintain rights to intellectual property could adversely affect our business.

We have many trademarks, brand names and trade names that are important to our business. Our business could be adversely affected by the loss of any major brand or by material infringement of our intellectual property rights. We are also subject to risks and costs associated with the enforcement of our intellectual property rights. Moreover, the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our products from infringement by others. In addition, others may assert intellectual property infringement claims against us or our customers.

An impairment in the carrying value of goodwill or other acquired intangible assets could negatively affect our operating results and stockholders equity.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date, net of any cumulative impairments. The carrying value of other intangible assets represents the fair value of trademarks, tradenames and other acquired intangible assets as of the acquisition date, net of impairments and accumulated amortization. Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by our management at least annually. If carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. For example, in connection with our annual indefinite-lived intangible asset impairment testing in the fourth quarters of 2012 and 2011, we recorded impairment charges of $15.6 million and $31.3 million to adjust certain tradenames to fair value. Events and conditions that could result in future impairments include a change in expected global consumer spending, deterioration of economic conditions globally or in particular markets, and decreases in market growth rates in certain categories in our business, among others. In addition, future impairment could be caused by changes in competition, a significant product liability or intellectual property claim, or other factors leading to reduction in expected long-term sales or profitability. If the value of goodwill or other acquired intangible assets is impaired, our earnings and stockholders equity could be adversely affected.

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A disruption at our production facilities or the inherent uncertainty in supply/demand forecasting could adversely impact our results of operations, cash flows and financial condition.

Because whiskeys/whiskies, cognacs, brandies, rum and some tequila varieties are aged for various periods, we maintain substantial inventories of maturing product in warehouse facilities. If there were a catastrophic failure at one of our major distillation or bottling facilities, our business would be adversely affected. The loss of a substantial amount of aged inventory through fire, other natural or man-made disaster, contamination, or otherwise could result in a significant reduction in supply of the affected product or products. Similarly, if we experienced a disruption in the supply of barrels in which to age our products, our business could suffer. A consequence of any of these supply disruptions could be our inability to meet consumer demand for the affected products for a period of time. In addition, there can be no assurance that insurance proceeds would cover the replacement value of our inventory of maturing products and other assets if they were to be lost.

In addition, there is an inherent risk of forecasting imprecision in determining the quantity of maturing stock to store in a given year for future consumption. The strategies we use to balance supply with fluctuations in consumer demand may not be effective in particular years, products or markets. As a consequence, we may be unable to meet consumer demand for the affected products for a period of time, or we may have a surplus of inventory. Not having our products in the market on a consistent basis may adversely affect our brand equity and future sales.

A breach of our data security could negatively affect our operations.

The security and reliability of our data infrastructure are critical to maintaining the availability and effective operation of the technology used in our business, the accurate collection and processing of financial and operational data, and the maintenance of confidential information. A breach of the security or reliability of our data infrastructure, whether by intentional act or otherwise, could result in an interruption of our operations and, in some circumstances, could result in property loss, breaches of regulations, legal liabilities or reputational damage.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The Company leases its principal executive offices in Deerfield, Illinois. The following table indicates the principal properties of the Company and its subsidiaries as of December 31, 2012:

	Owned	Leased
Production and Warehouse Facilities:		
Canada	6	
France	8	
India	1	13
Mexico	3	6
Spain	11	
U.K.	3	
U.S. Kentucky	13	2
U.S. Maine	3	
U.S. Virgin Islands	3	
Total	51	21
Distribution Facilities:		
Germany (EMEA)		1
India (APSA)		7
Spain (EMEA)	1	
Total	1	8
Total	52	29

The production and warehouse facilities listed above support the operations of each of our segments. In addition to the leased property located in Deerfield, Illinois, the Company also leases properties located in Australia, India, Mexico, and Spain related to corporate and administrative functions.

We are of the opinion that the properties are suitable for our business and have production capacities adequate to meet the needs of our business.

Item 3. Legal Proceedings.

Tobacco Litigation

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.

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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.

On September 14, 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.

Pending Cases

As of December 31, 2012, there were four smoking and health cases pending on behalf of individual plaintiffs in which the Company has been named as one of the defendants, compared with five cases reported in our Annual Report on Form 10-K for the year ended December 31, 2011. As of December 31, 2012, there were no purported smoking and health class actions or health care recovery actions pending against the Company. For a list of pending cases, see Exhibit 99 to this Annual Report on Form 10-K.

Terminated Cases

There was one tobacco-related case (Eiser) terminated in 2012 in which the Company was named as one of the defendants.

Certain Developments Affecting the Indemnitor

On July 14, 2000, in Engle v. R.J. Reynolds Tobacco Company, et al., a Florida state case brought against B&W (individually and as successor to ATCO) and other U.S. tobacco manufacturers on behalf of a class of Florida residents allegedly injured as a result of their alleged addiction to cigarettes containing nicotine, a jury awarded a total of $144.87 billion in punitive damages against the defendants, including $17.59 billion against B&W. On July 6, 2006, the Florida Supreme Court vacated the jury s $145 billion punitive damage award and also decertified the class and reinstated compensatory damages to the two named plaintiffs, and permitted individual members of the former class to file separate lawsuits within one year of issuance of the mandate (which was ultimately issued January 11, 2007). As of December 31, 2012, B&W and/or R.J. Reynolds Tobacco Company had been served in over 5,700 pending cases (the Engle progeny cases) in Florida. As of December 31, 2012, 78 Engle progeny cases have been tried to verdict in state and federal court, 52 of which resulted in adverse judgments against tobacco companies. Of those 52 adverse judgments, 43 resulted in adverse judgments against the Indemnitor. As of December 31, 2012, the Indemnitor has appealed every adverse judgment, with the exception of those adverse judgments in which the time to appeal had not yet expired. The Indemnitor has paid final judgments in seven Engle progeny cases as of December 31, 2012. The Company is not a party to any of the Engle progeny cases.

In September 1999, the United States government filed a recoupment lawsuit in Federal Court in Washington, D.C. against the leading tobacco manufacturers (including the Indemnitor and B&W individually and as a successor to ATCO) seeking recovery of costs paid by the Federal government for claimed smoking-related illness. On August 17, 2006, the Court issued a final judgment and remedial order, which found that the defendants violated federal civil RICO law by defrauding the public with regard to smoking and health issues. The court did not award monetary damages to the government, but did order the defendants to, among other things, remove descriptors such as low tar, light or ultra light from cigarette packages and to publish certain corrective statements regarding smoking and health issues. On May 22, 2009, the U.S. Court of Appeals for the District of Columbia unanimously affirmed the district court s RICO liability judgment against several defendants, including the Indemnitor, and remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The District Court issued an order on December 22, 2010, on consent of the parties, ruling that B&W is no longer subject to the injunctive remedies in the case. On November 27, 2012, the District Court issued an order that the defendants publish certain corrective statements as set forth in the order. The defendants appealed this order on January 25, 2013. In addition, certain defendants filed an appeal on June 3, 2011 from an order entered by the District Court denying the defendants motion to vacate all injunctive remedies and dismiss the case in its entirety based on the passage of new federal law that granted the Food and Drug Administration regulatory authority over the marketing and sale of tobacco products. Defendants also noticed an appeal on June 8, 2011 from an order entered by the District Court requiring the defendants to disclose various disaggregated marketing data. The U.S. Court of Appeals for the District of Columbia denied both appeals on July 27, 2012. The Company is not a party to this action.

On March 21, 2003, a judgment for $7.1 billion in compensatory and $3 billion in punitive damages was entered by an Illinois state court against Philip Morris, Inc. in Price, et al. v. Philip Morris, Inc., a class action alleging that certain advertising for light or low tar cigarettes was deceptive under the Illinois Consumer Fraud Act. On September 28, 2011, after several years of appellate proceedings, the Supreme Court of Illinois remanded the case to the trial court for further proceedings. Plaintiffs filed a petition to reinstate the $10.1 billion judgment on February 15, 2012. On December 12, 2012, the court entered judgment for Philip Morris, denying plaintiffs petition. This ruling is on appeal. Class actions involving similar allegations as Price (Howard, et al. v. Brown & Williamson Tobacco Corp. and Turner v. R.J. Reynolds Tobacco Co.) are pending against B&W and R.J. Reynolds Tobacco Company, respectively, in the same court. Proceedings in the Howard and Turner cases have been stayed or are otherwise inactive pending resolution of the Price litigation. The Company is not a party to the Price, Howard or Turner litigation.

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Resolution of Health Care Cost Recovery Actions by State, U.S. Territories and the District of Columbia

In 1998, certain U.S. tobacco companies, including B&W, entered into a Master Settlement Agreement (the MSA) with certain state attorneys general that resulted in the dismissal of all remaining health care reimbursement lawsuits brought by 52 government entities, including 46 states, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands and the District of Columbia. Although the Company is not a party to the MSA and is not bound by any of its payment obligations or other restrictions, the Company understands that it is a released party under the terms of the MSA, which provides for the release of claims not only against participating manufacturers, but also against their predecessors, successors, and past, present and future affiliates.

Under the MSA, participating manufacturers were required to make initial payments through 2003, with additional payments to the settling parties required to continue in perpetuity (starting at $4.5 billion in 2000 and increasing to $9 billion in 2018 and thereafter). Payments to a strategic contribution fund for individual states from 2008 to 2017, and a public health foundation until 2008, were also required. Ongoing payments are to be allocated according to market share and are subject to various credits and adjustments, depending on industry volume. The MSA also calls for the participating manufacturers to pay attorneys fees for the states attorneys in the settled litigation.

Other Legal Proceedings

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, individually or in the aggregate, on our results of operations, cash flows or financial condition.

Item 4. Mine Safety Disclosures.
Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Quarterly Composite Common Stock Prices and Common Stock Cash Dividend Payments

	2012			2011 (1)		
	High	Low	Dividend Per Share	High	Low	Dividend Per Share
First Quarter	$ 58.57	$ 50.58	$ 0.205	$ 63.51	$ 58.89	$ 0.19
Second Quarter	63.51	55.33	0.205	65.48	61.62	0.19
Third Quarter	63.21	56.76	0.205	65.42	50.88	0.19
Fourth Quarter	61.86	53.16	0.205	54.49(2)	42.30(2)	0.19
Total			$ 0.82			$ 0.76

(1) Historical prices are not adjusted to reflect the Spin-Off.
(2) On October 3, 2011, we completed the Spin-Off by paying a pro rata dividend of one share of Home & Security common stock for each share of our common stock held on September 20, 2011, the record date for the Spin-Off. On October 3, 2011, the last trading day before the Spin-Off became effective, the closing price of our common stock, trading regular way (that is, with an entitlement to shares of Home & Security common stock distributed in the Spin-Off), was $54.20. On October 4, 2011, the first day of trading after the Spin-Off, the opening price of our common stock was $43.55 per share and the opening price of Home & Security common stock was $12.19 per share.

The Company s common stock is listed on the New York Stock Exchange, which is the principal market for this security. The high and low prices are as reported in the consolidated transaction reporting system.

On January 25, 2013, we announced that our board of directors approved a 10% increase in the dividend on the Company s common stock. Beginning with the payment on March 1, 2013, the dividend will increase 8 cents per share to an annual rate of $0.90 (payable 22.5 cents per quarter) from $0.82 per share (20.5 cents per quarter). We currently expect to pay quarterly cash dividends in the future, but such payments are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth in the section of this Annual Report on Form 10-K entitled Item 1A. Risk Factors.

On January 31, 2013, there were 16,701 record holders of the Company s common stock, par value $3.125 per share.

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Stock Performance Graph

The graph below compares the cumulative total shareholder return of the Company s common stock for the last five years with the cumulative total return for the same period of the S&P 500 Index, the former Fortune Brands peer group and the Beam Inc. peer group (described below). The former Fortune Brands peer group is presented to provide a meaningful comparison of Beam s stock performance relative to its peers during the periods prior to the Separation Transactions. On October 3, 2011, Beam Inc. spun-off to its stockholders its entire interest in Fortune Brands Home & Security, Inc. The Spin-Off is treated as a special dividend for the purposes of calculating total shareholder return, with the then current market value of the distributed shares being deemed to have been reinvested on the Spin-Off date in shares of Beam Inc. A vertical line is included on the graph below to separate periods that include the combined Fortune Brands businesses from periods that only include the standalone Beam Inc. spirits business (October 3, 2011).

TOTAL SHAREHOLDER RETURN

(With Dividend Reinvestment)

The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or the Exchange Act.

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The weighted average total return for Beam Inc. common stock and the three indices is calculated from an assumed initial investment of $100 and assumes dividend reinvestment, including the impact of the distribution of Home & Security common stock in the Spin-Off.

Beam Peer Group

The Beam peer group is the Dow Jones Food & Beverage Titans 30 Index, a published index that represents leading companies in the global food and beverage sector based on market capitalization, revenue, and net profit.

Former Fortune Brands, Inc. Peer Group

The former Fortune Brands, Inc. peer group was comprised of the following publicly traded companies in industries corresponding to the three businesses of Fortune Brands, Inc. prior to the Separation Transactions:

Spirits: Brown-Forman Corporation, Constellation Brands, Inc., Diageo PLC, Pernod Ricard S.A. and Rémy Cointreau S.A.;

Home & Security: Stanley Black & Decker, Inc., Masco Corporation, and Newell Rubbermaid Inc.; and

Golf: Adidas Salomon AG, Callaway Golf Company, Mizuno Corporation and NIKE, Inc.

The weighted average total return of the entire peer group, for each year, is calculated in the following manner:

(1) the total return of each peer group member is calculated by dividing the change in market value of a share of its common stock, assuming periodic dividend reinvestment, by the cumulative value of a share of its common stock at the beginning of the year;

(2) each peer group member s total return is then weighted within its industry segment based on its market capitalization at the beginning of the year, relative to the market capitalization of the entire segment, and the sum of such weighted returns results in a weighted average total return for that segment; and

(3) each segment s weighted average total return is then weighted based on the percentage of sales, excluding excise taxes, as required by SEC regulations, of that segment of the Company for the year, as compared with total Company sales, excluding excise taxes, and the sum of such weighted returns results in a weighted average total return for the entire peer group.

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Issuer Purchases of Equity Securities $2.67 Convertible Preferred Stock

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2012 October 31, 2012[(a)]				96,020
November 1, 2012 November 30, 2012[(a)]	49,590	$ 31.02	49,590	
December 1, 2012 December 31, 2012				
Total	49,590		49,590	

(a) On November 20, 2012, we completed the previously announced redemption of all outstanding shares (49,590 shares) of our $2.67 Convertible Preferred Stock that had not been converted in accordance with their terms into shares of our common stock. As a result of such redemption, there are no longer any issued and outstanding shares of our $2.67 Convertible Preferred Stock. Pursuant to the redemption, which was announced on August 21, 2012, stockholders received an aggregate redemption price of $31.02 ($30.50 per share plus accrued and unpaid dividends of $0.52 per share) for each share redeemed.

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Item 6. Selected Financial Data.

The selected financial data should be read in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	For the year ended December 31,				
(In millions, except per share amounts)	**2012**	**2011**	**2010**	**2009**	**2008**
Income Statement Data					
Sales [a]	$ 3,070.1	$ 2,871.7	$ 2,665.9	$ 2,469.6	$ 2,480.9
Less: Excise taxes	(604.2)	(560.6)	(571.0)	(489.3)	(503.8)
Net sales [a]	2,465.9	2,311.1	2,094.9	1,980.3	1,977.1
Cost of goods sold [b]	1,027.5	987.8	865.0	782.7	791.5
Gross profit	1,438.4	1,323.3	1,229.9	1,197.6	1,185.6
Advertising and marketing expense	398.7	358.7	307.6	275.7	331.3
Selling, general and administrative expense [c] [d]	412.9	430.0	416.1	384.2	292.6
Amortization of intangible assets	17.2	16.3	16.3	17.3	16.4
Business separation costs[e]	13.8	83.8	2.3		
Restructuring charges	4.3	7.7	15.4	28.8	32.3
Asset impairment charges	15.6	31.3		92.5	27.2
Loss on sale of brands and related assets			16.0		
Operating income	575.9	395.5	456.2	399.1	485.8
Interest expense	109.0	117.4	143.7	143.6	139.8
Loss on early extinguishment of debt		149.2			
Other (income) expense [f]	(35.1)	(40.4)	(33.2)	7.5	(279.9)
Income from continuing operations	502.0	169.3	345.7	248.0	625.9
Income taxes [g]	103.8	36.0	36.2	13.3	120.5
Income from continuing operations, net of tax	$ 398.2	$ 133.3	$ 309.5	$ 234.7	$ 505.4
Earnings per common share continuing operations					
Basic	$ 2.51	$ 0.86	$ 2.03	$ 1.56	$ 3.80
Diluted	$ 2.48	$ 0.85	$ 2.01	$ 1.55	$ 3.76
Weighted-average common shares outstanding					
Basic	158.3	154.6	152.4	150.3	151.7
Diluted	160.8	157.8	154.3	151.8	153.7
Cash Flow Data					
Cash dividends declared per share of common stock	$ 0.82	$ 0.76	$ 0.76	$ 1.01	$ 1.72

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	As of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data					
Total assets	$ 8,636.9	$ 7,491.8	$ 12,674.0	$ 12,370.6	$ 12,091.9
Total assets (net of assets of discontinued operations)	8,636.9	7,491.8	8,262.2	7,903.0	7,370.1
Short-term debt [(h)]	480.1	28.4	611.4	39.9	17.9
Long-term debt	2,024.9	1,902.1	3,620.6	4,389.4	4,664.7

(a) 2012 net sales include $87 million related to the May 2012 acquisition of the Pinnacle assets (refer to Note 2, *Acquisitions and Dispositions*, of the Notes to the Consolidated Financial Statements for more information). 2011 includes $46 million of sales associated with transition to our new long-term distribution agreement in Australia.

(b) 2011 includes $23 million related to the Australia distribution agreement transition and restructuring-related charges of $16 million primarily related to restructuring activities discussed in Note 7, *Restructuring and Other Charges*, of the Notes to the Consolidated Financial Statements.

(c) 2012 includes $17 million of acquisition/integration related expenses. 2011 includes $28 million of acquisition-related contingent consideration. 2010 includes restructuring-related charges of $7 million primarily related to restructuring activities. Refer to Note 2, *Acquisitions and Dispositions*, and Note 7, *Restructuring and Other Charges*, of the Notes to the Consolidated Financial Statements for additional information related to these items.

(d) Selling, general, and administrative expenses for 2008-2011 may not be comparable to selling, general, and administrative expenses for 2012 due to the impact of the Separation Transactions, which resulted in lower Beam standalone-company costs as compared to the former Fortune Brands, Inc. corporate cost structure. Refer to Note 3, *Discontinued Operations,* and Note 21, *Segment Information,* of the Notes to the Consolidated Financial Statements for more information on the Separation Transactions and incremental costs related to the former Fortune Brands, Inc. corporate cost structure as compared to the estimated Beam corporate cost structure following the Spin-Off, respectively.

(e) Business separation costs are directly related to implementing the Separation Transactions (refer to Note 6, *Business Separation Costs*, of the Notes to the Consolidated Financial Statements for additional information).

(f) 2012, 2011, and 2010 include nontaxable income tax indemnification payments related to foreign tax jurisdictions for periods prior to our acquisitions of the businesses of $18 million (2012), $27 million (2011), and $37 million (2010).

(g) 2012 includes $22 million of excess net foreign tax credits related to U.S. taxes applicable to repatriation of current year foreign earnings, $17 million net benefit related to the settlement of certain foreign and U.S. federal and state tax audit matters, and unfavorable adjustments to tax expense of approximately $7 million related to the correction of prior year items which were deemed to be immaterial to all periods presented. 2011 includes the impact of tax assessments associated with the resolution of routine foreign and U.S. income tax audit examinations, including an unfavorable $26 million related to Mexican tax audits (the corresponding indemnification payment we received is reflected in other income) and a favorable $19 million related to German tax audits. 2010 includes a favorable $46 million related to tax assessments associated with the resolution of routine foreign and U.S. income tax audits. Additionally, income taxes in 2008-2011 may not be comparable to income taxes in 2012 due to the impact of the Separation Transactions. Refer to Note 3, *Discontinued Operations*, of the Notes to the Consolidated Financial Statements for more information on the Separation Transactions.

(h) Includes short-term borrowings and current portion of long-term debt.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. 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 the Disclosure Regarding Forward-Looking Statements section in Part I, Item 1 of this report and the Risk Factors section in Part I, Item 1A of this report.

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, tequila, Scotch whisky, Canadian whisky, vodka, cognac, rum, cordials, and ready-to-drink pre-mixed cocktails. Our diverse portfolio includes several of the world s top premium spirits brands. As further described in the notes to the consolidated financial statements included in this Form 10-K, discontinued operations include the former Fortune Brands Golf and Home & Security segments, both of which were disposed of in 2011.

Our portfolio consists of brands we identify as Power Brands, Rising Stars, Local Jewels, and Value Creators. The Power Brands are our core brand equities, with global reach in premium categories and large annual sales volume. Rising Stars are smaller premium brands in priority markets that we believe have excellent growth profiles and receive substantial brand investment to drive expansion. Brands identified as Local Jewels act as Power Brands in local markets. Value Creators include a variety of brands providing scale and profit across multiple categories. Power Brands, Rising Stars, and combined Local Jewels/Value Creators (including non-branded sales) represent approximately 60%, 15%, and 25%, respectively, of our net sales. Our Power Brands and Rising Stars, which are the focus of our brand investment, are listed below.

Power Brands:	Jim Beam Bourbon, Maker s Mark Bourbon, Sauza Tequila, Courvoisier Cognac, Canadian Club Whisky, Teacher s Scotch, and Pinnacle Vodka
Rising Stars:	Laphroaig Scotch, Knob Creek Bourbon, Basil Hayden s Bourbon, Kilbeggan Irish Whiskey, Cruzan Rum, Hornitos Tequila, Skinnygirl Cocktails, and Sourz Liqueurs

The principal markets for our spirits products are the United States, Australia, Germany, Spain, the United Kingdom, and Canada, and we continue to invest in emerging markets such as India, Brazil, Mexico, Russia, Central Europe, Asia, and other geographies. We operate our business on the basis of geographical regions, consisting of North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA).

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EXECUTIVE SUMMARY

Operational and Financial Highlights for 2012

Operational and financial highlights for the year ended December 31, 2012 include the following:

- Our diluted earnings per share from continuing operations were $2.48 in 2012 compared with $0.85 per share in 2011. The year-over-year improvement in earnings per share is largely attributable to significant nonrecurring costs incurred in 2011 due to the Separation Transactions (as noted below). In addition, our results in 2012 benefited from our operating strategy (Create Famous Brands, Building Winning Markets, and Fueling Our Growth) as well as from acquisitions completed in 2012. Our results included an 11% increase in advertising and marketing expenditures as well as higher investment in aging spirits inventory, production capacity, and innovation capability to support future profitable growth;

- Our net sales increased 7% (6% on a comparable basis), exceeding the growth of our global market, which we estimate grew approximately 3% in value in 2012. The comparable net sales growth was driven by our Power Brands and Rising Stars, benefiting from strong demand for bourbon and growth in core markets, including the United States, Australia, and Germany, as well as in emerging markets;

- Strategies to Create Famous Brands, which resulted in record new product innovations (such as Red Stag Honey Tea, Red Stag Spiced, Jim Beam Devil s Cut, Jim Beam Honey, and Skinnygirl Wine, Vodka, and Piña Colada Ready-to-Serve), higher pricing in select categories, and favorable price/mix, contributed to net sales growth and faster operating income growth;

- Strategies to Build Winning Markets resulted in enhanced distribution capability in many countries, such as Australia, China, and Mexico, which also contributed to net sales growth and faster operating income growth;

- Strategies to Fuel Our Growth, such as the consolidation of our U.S. bottling facilities into our expanded center of excellence in Frankfort, Kentucky and our Design to Value program that focuses on brand attributes consumers value, led to substantial cost savings that largely offset the impact of higher raw material related costs and contributed to increased gross margin;

- We completed the acquisition of the Pinnacle Vodka brand and related assets (the Pinnacle assets) to create shareholder value by driving cost and revenue synergies while enhancing our participation in the premium vodka category. We also entered the Irish whiskey category with the acquisition of Cooley Distillery (Cooley);

- We issued long-term debt with an aggregate principal amount of $600 million to fund our acquisition of the Pinnacle assets; and

- In January 2012, we increased our quarterly dividend 8% to 20.5 cents per share of common stock (and we subsequently increased our quarterly dividend 10% to 22.5 cents per share of common stock in January 2013, beginning with the March 1, 2013 dividend payment).

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Certain items had a significant impact on our financial results in 2012, 2011, and 2010. These include the impact of the Separation Transactions completed in 2011, changes in foreign currency exchange rates, acquisition related items, restructuring and other related charges and income tax related matters.

In 2012, our financial results include the following:

Acquisition /integration charges of $22 million ($17 million net of tax, or $0.11 per share) related to the acquisition and integration of the Pinnacle assets and Cooley. The 2012 acquisition related adjustments impacting SG&A expense consist of: transaction-related expenses of $5 million, contract termination expenses of $10 million and integration related expenses of $2 million. In addition, acquisition related adjustments include amounts charged to costs of goods sold ($1 million) and restructuring charges ($3 million) that primarily relate to accelerated depreciation and employee retention. Income tax expense includes the tax benefit related to these charges, partially offset by tax on earnings distributed within certain of Beam s foreign tax jurisdictions incurred in connection with funding a portion of the capital requirement for Cooley ($5 million);

Other SG&A charges of $4 million associated with our internal review with respect to our India operation;

Business separation costs of $14 million ($9 million net of tax, or $0.05 per share) primarily related to a $15 million pension settlement charge associated with a required $29 million lump sum distribution of benefits paid to former Fortune Brands, Inc. executives in July 2012 in connection with the Separation Transactions completed in 2011;

Asset impairment charges of $16 million ($11 million net of tax, or $0.07 per share) related to the Larios tradename (Spain);

Other income benefited from a nontaxable indemnification payment of $18 million (or $0.11 per share) received from Pernod Ricard S.A. (Pernod Ricard) for resolution of certain tax matters for years prior to our ownership of the businesses and a nontaxable distribution from our former Maxxium investment of $2 million ($0.01 per share);

Income tax expense benefits of approximately $33 million (or $0.20 per share) that primarily included a $22 million net foreign tax credit related to the repatriation of current year earnings, a $17 million net benefit arising from the resolution of certain foreign and U.S. federal and state tax audit matters, and $6 million of expense primarily related to our annual reconciliation of the 2011 income tax filing to the 2011 provision for income taxes; and

As compared with 2011, foreign exchange translation rates and hedge results had an unfavorable $32 million impact on net sales and a favorable $9 million impact on operating income.

In 2011, our financial results included the following:

Business separation costs of $84 million ($68 million net of tax, or $0.43 per share) incurred in connection with the Separation Transactions, principally transaction and professional advisory fees, severance and other employee related costs;

Corporate and other general and administrative overhead costs related to the former Fortune Brands, Inc. management structure through the Spin-Off (October 3, 2011) of $61 million ($38 million net of tax, or $0.24 per share);

Acquisition related contingent consideration of $28 million ($17 million net of tax, or $0.11 per share) recorded based on the actual and forecasted performance of the Skinnygirl business, which we acquired in 2011;

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Restructuring and other related charges of $25 million ($16 million net of tax, or $0.10 per share) primarily related to a facility consolidation and other supply chain and distribution cost reduction initiatives in North America as well as other organizational streamlining initiatives;

Higher net sales of $46 million and operating income of $24 million ($17 million net of tax, or $0.10 per share) related to the one-time sale of product recorded in connection with our transition to a new long-term distribution agreement in Australia;

A favorable impact of foreign exchange compared to 2010 of $64 million on net sales and $16 million on operating income ($11 million net of tax, or $0.07 per share);

Asset impairment charges of $31 million ($22 million net of tax, or $0.14 per share) related to the DYC and Larios tradenames (Spain);

Other income benefited from a nontaxable distribution from our Maxxium investment of $10 million ($0.06 per share) and nontaxable income tax indemnification payments of $27 million ($0.17 per share) from Pernod Ricard related to foreign tax jurisdictions for periods prior to our ownership of the businesses;

Loss on early extinguishment of debt of $149 million ($96 million net of tax, or $0.61 per share); and

Income tax expense was impacted by the tax effects of the significant items described above and the impact of tax assessments associated with the resolution of routine foreign and US income tax audit examinations, including an unfavorable $26 million related to Mexican tax audits and a favorable $19 million related to Germany tax audits.

In 2010, our financial results include the following:

Business separation costs of $2 million (or $0.01 per share) incurred in connection with the Separation Transactions principally for transaction and professional advisory fees;

Corporate and other general and administrative overhead costs related to the former Fortune Brands, Inc. management structure of $86 million ($55 million net of tax, or $0.36 per share);

Restructuring and other related charges of $26 million ($17 million net of tax, or $0.11 per share) primarily related to a facility consolidation and other supply chain and distribution cost reduction initiatives in North America as well as other organizational streamlining initiatives;

Loss on the sale of certain non-strategic brands in Germany and the Cockburn s port brand of $16 million ($19 million net of tax, or $0.12 per share);

Other income benefited from nontaxable income tax indemnification payments of $37 million related to foreign tax jurisdictions for periods prior to our acquisitions of the business; and

Income tax expense was impacted by the tax effects of the significant items described above and a favorable $46 million related to tax assessments associated with the resolution of routine foreign and U.S. income tax audit examinations.

Business Outlook

We believe that the long-term demographic trends are favorable for the continued profitable growth of western premium spirits globally. While we estimate our global spirits market will again grow value by approximately 3% in 2013, supported by continued growth in the U.S. and emerging markets, the potential for slower growth in Western Europe and emerging economies could adversely impact trading conditions. In addition, in 2013 we expect another year of higher raw material-related costs (mostly offset by cost savings), limited opportunities to increase pricing, and year-over-year declines in our India operation through the third quarter as we reposition the business there (India comprised 2% of total 2012 net sales, and less than 2% of total 2012 operating income; see Note 18, *Commitments and Contingencies,* of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information). 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 growth in 2013 and over the long term. In 2013, we also expect to benefit from the carry-over benefit of 2012 price increases, above-market growth of the bourbon category globally, our efficiency and effectiveness agenda, and from the full-year benefit of 2012 acquisitions, including cost synergies and enhanced distribution.

Please see Forward-Looking Statements for a discussion of certain factors that may cause our actual results to vary materially from those expected as of the date of the filing of this report.

RESULTS OF OPERATIONS

Presentation Basis and Non-GAAP Measures

Volume is measured on a nine liter equivalent unit basis. We divide ready-to-drink cases by 10 to obtain a nine liter case equivalent.

Price/mix is the number of percentage points by which the comparable net sales changes exceeds the change attributable to volume. The difference arises because of changes in the composition of sales between higher and lower priced brands or from price changes.

Comparable net sales growth rate is a non-GAAP measure that we use to evaluate our sales growth on a year-over-year basis exclusive of certain items that are not indicative of the underlying sales performance of our business. To calculate comparable net sales, our GAAP net sales growth rates are adjusted for the impact of foreign exchange, acquisitions/divestures, and the impact of transitioning in 2011 to a new manufacturing and distribution model in Australia.

In calculating comparable net sales, the acquisition/divesture impact is determined by comparing our actual reported revenue in the current period, including revenue attributable to acquired companies, with adjusted revenue from the prior-year period. In arriving at adjusted prior-year revenue, we include the revenue of acquired companies and remove the revenue of divested companies for the prior-year periods comparable to the current-year periods for which the companies are included in our actual reported revenue. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

Approximately 45 percent of our business was outside the U.S during 2012. 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 by segment includes the use of constant currency net sales and operating income, non-GAAP measures which exclude the impact of foreign exchange translation. Management believes these measures are useful for evaluating performance, as fluctuations in exchange rates can impact the underlying year-over-year growth rates of the segments.

Comparable net sales and constant currency net sales and operating income (by segment) are measures that may not be comparable to similar measures used by other companies. These measures should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP.

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Consolidated Results for 2012 Compared to 2011

Net sales

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

	Consolidated Net Sales Growth
Net sales growth (GAAP)	7%
Foreign exchange rates [(a)]	1%
Acquisitions/divestitures [(a)]	(4)%
Australia distribution one-time sale[(a)]	2%
Comparable net sales growth (Non-GAAP)	6%

(a) See Presentation Basis and Non-GAAP Measures above for a description of these adjustments.

GAAP net sales increased $155 million, or 7%, from $2,311 million in 2011 to $2,466 million in 2012. The 7% increase in GAAP net sales in the 2012 period was primarily due to the benefit of sales from the Pinnacle assets and Cooley (4%), which were acquired in 2012, partially offset by the impact of the 2011 one-time sale of inventory related to transitioning to our new long-term distribution agreement in Australia in 2011 (2%) and an adverse impact from foreign exchange rate fluctuations (1%), which is discussed in segments results of operations below. The increase in comparable net sales was primarily due to the impact of higher volumes (3%), favorable mix (2%), and favorable price (1%) in 2012 as compared to 2011. Higher volumes were primarily due to strong growth for Jim Beam, reflecting higher sales for Jim Beam White as well as the brand s premium innovations such as Red Stag, Jim Beam Honey, and Devil s Cut, in addition to comparable sales growth for our Pinnacle Vodka, Maker s Mark, Courvoisier, and Skinnygirl brands. Favorable mix was due to the impact of innovations and premiumization on our product portfolio. The price benefit in 2012 was due to targeted price increases for certain brands and markets such as Jim Beam and Maker s Mark in the U.S. as well as Courvoisier in Asia and Travel Retail. The comparable net sales increase of 6% was driven by net sales growth in all three of our segments as described below.

Cost of goods sold

The $40 million, or 4%, increase in cost of goods sold in 2012 was largely due to the impact of acquisitions (approximately $55 million) and increased organic sales as described above, partially offset by a year-over-year benefit from foreign currency ($30 million) and the transition to our new long-term manufacturing and distribution agreement in Australia, including the prior year impact of a one-time sale of inventory ($23 million). The impact of higher raw material-related costs and inflation (approximately $35 million) was largely offset by savings from our organizational streamlining and cost sourcing/saving initiatives. For 2013, we expect our net increases in raw material-related costs to be likely in the range of $35 million, impacted by bottling and selling bourbon that was barreled at a time when corn prices were higher four to five years ago. Gross profit percentage margin increased approximately 100 basis points in 2012 compared to 2011 largely due to the absence of the low margin one-time sale in 2011 related to our Australia distribution change described above, as well as reflecting the benefit of price/mix and accretive innovations.

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Advertising and marketing expense

The $40 million increase in advertising and marketing expense in 2012 was primarily due to the expansion of successful innovations and equity building programs related to our Power Brands and Rising Stars. Advertising and marketing expense as a percentage of net sales increased from 15.5% to 16.2% in 2012.

Selling, general and administrative expense

Selling, general and administrative expense decreased $17 million in 2012, primarily due to lower Beam standalone-company costs as compared to the former Fortune Brands, Inc. corporate cost structure ($36 million), the absence of $28 million of acquisition-related charges that were incurred in the prior-year period in connection with contingent consideration related to the Skinnygirl acquisition, and a favorable foreign currency impact ($5 million). These benefits in 2012 were partially offset by inflation and increased selling costs to drive higher sales, acquisition and integration-related costs of $17 million (contract termination expenses of $10 million, transaction-related expenses of $5 million, and integration related expenses of $2 million) in connection with the acquisition of the Pinnacle assets and Cooley as well as approximately $4 million of charges associated with our internal investigation with respect to our India operations. Refer to Note 21, *Segment Information*, to our financial statements included in this report for more information on estimating standalone corporate cost structure.

The following table summarizes information related to certain of our operating expenses as a percentage of net sales:

	2012		2011		Favorable (Unfavorable) change		
($ in millions)	$	% of net sales	$	% of net sales	$	%	basis points
Cost of goods sold	1,027.5	41.7%	987.8	42.7%	(39.7)	(4.0)%	100
Advertising and marketing expense	398.7	16.2%	358.7	15.5%	(40.0)	(11.2)%	(70)
Selling, general, and administrative expense	412.9	16.7%	430.0	18.6%	17.1	4.0%	190

Business separation costs

We recorded $14 million and $84 million of business separation costs in the years ended December 31, 2012 and 2011, respectively. Business separation costs in 2012 primarily consist of a $15 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 a decrease in accrued liabilities for estimated costs to complete the Separation Transactions. Business separation costs in 2011 consisted of $44 million of financial, legal, and other advisory fees related to the Separation Transactions, as well as $40 million of employee-related costs primarily related to termination benefits.

Restructuring charges

In 2012, restructuring charges of $4 million primarily related to the relocation of certain U.S. finance and human resource shared services from our Deerfield headquarters to Kentucky and the ongoing integration of the Pinnacle assets, which includes our plans to move Pinnacle bottling operations from Maine to our existing facilities in Kentucky in early 2014. In 2011, restructuring charges of $8 million primarily related to distribution and supply-chain initiatives, facility consolidations, and organizational streamlining initiatives. The Company employed lean techniques throughout the organization to meet its goal of achieving 1-2% annual improvement before inflation in our total cost of goods sold and selling, general and administrative expenses.

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We expect that future cash charges related to the integration of the Pinnacle assets to be approximately $5 million. Actual costs may vary from these estimates depending on the timing and extent of the initiatives we implement and other factors.

Asset impairment charges

In 2012, we recorded an impairment charge of $16 million to reduce the Larios tradename to an estimated fair value of $55 million. The impairment was primarily due to lower projected future revenue for this brand as compared to the projected revenues estimated during the impairment test conducted during the fourth quarter of 2011. Factors that contributed to lower revenue projections included a comparison of actual results for 2012 against our 2012 outlook, continued economic challenges in the Spanish market, and the current competitive outlook within the spirits category in which the tradename competes, among other factors.

In 2011, we recorded a non-cash impairment charge of $31 million to reduce the DYC and Larios tradenames to their estimated fair value in December 2011. The asset impairments were due to the combined effect of the economic downturn on sales in key geographic markets (principally Spain), as well as the effect of substantially higher interest rates.

Refer to Critical Accounting Policies and Estimates Intangible Assets below, Note 12, *Goodwill and Other Intangible Assets*, and Note 15, *Fair Value Measurements*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information.

Operating income

Operating income increased $180 million, or 46%, from $396 million in 2011 to $576 million in 2012. The increase in operating income was primarily due to lower business separation, acquisition, and restructuring and other charges/gains (collectively, approximately $93 million), lower Beam corporate cost structure as compared to the Fortune Brands, Inc. cost structure ($36 million), lower intangible asset impairment charges ($15 million) and increased gross profit ($115 million) from higher sales, which were driven by volume, mix, and price as described above. The increase in operating income in 2012 was also due to a $9 million favorable impact from changes in foreign currency rates and related hedge impacts. These benefits were partially offset by increases in advertising and marketing and selling, general and administrative expenses (excluding the Fortune Brands cost structure impact and other charges/gains noted above) and the absence of $24 million of gross profit from the one-time sale of inventory related to our Australia distribution change in 2011.

Interest expense

Interest expense decreased $8 million, or 7%, from $117 million in 2011 to $109 million in 2012 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.

Loss on early extinguishment of debt

The loss on early extinguishment of debt of $149 million in 2011 consists of $155 million of purchase premiums and $7 million of accelerated unamortized debt issuance costs, partially offset by $13 million attributed to the amortization/write-off of deferred gains on terminated interest rate swaps related to the extinguished debt. Refer to the section Liquidity and Capital Resources below for additional information regarding the reduction of debt during 2011.

Other income

Other income decreased $5 million, or 13%, from $40 million in 2011 to $35 million in 2012. The change from 2011 to 2012 was primarily due to lower nontaxable indemnification payments received from Pernod Ricard related to the settlement of tax matters ($8 million) and lower distributions related to the wind down of our Maxxium joint venture investment ($8 million), partially offset by an increase in equity income related to our international distribution joint ventures with The Edrington Group ($5 million) and higher foreign currency transaction gains ($4 million).

Income taxes

The effective income tax rates for 2012 and 2011 were 20.7% and 21.3%, respectively. Several significant items impacted the comparability of our effective rates between 2012 and 2011. The effective tax rate in 2012 was favorably impacted primarily by net foreign tax credits ($22 million), tax benefits recorded in 2012 as a result of final audit settlements and the expiration of foreign jurisdiction income tax review periods ($17 million), and $7 million of expense related to the correction of prior year items. The effective tax rate in 2011 was favorably impacted by the tax-free treatment of indemnification income received in connection with a settlement of a Mexican income tax audit and the resolution of a German tax audit, partially offset by the impact of non-deductible business separation costs and a tax assessment related to the settlement of a Mexican income tax audit. See Note 9, *Income Taxes*, to our financial statements included in this report for additional information relating to foreign audit settlements, related indemnification payments, and other factors impacting our effective tax rate as compared to the U.S. federal statutory rate.

Loss (income) from discontinued operations, net of tax

Loss from discontinued operations, net of tax, of $16 million in 2012 is primarily related to an increase in estimated tax indemnification liabilities associated with the disposed Golf business and an increase to an environmental liability ($4 million net of tax) related to a discontinued operation not included in the Separation Transactions, partially offset by a net tax benefit related to these charges and certain other tax matters. Income from discontinued operations, net of tax, of $782 million in 2011 is primarily due to a $687 million gain on the sale of the Golf business and income from our former Golf and Home & Security businesses generated prior to disposition. See Note 3, *Discontinued Operations*, to our financial statements included in this report for additional information.

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Segment Results for 2012 Compared to 2011

We evaluate our segment net sales and operating income excluding certain items considered by management to be unusual or infrequent in nature and not indicative of the segments underlying operating performance. Consequently, segment results presented in accordance with GAAP exclude these items.

The following table sets forth net sales and operating income by operating segment for 2012 and 2011 as reported and adjusted to exclude the impact of foreign exchange translation (in millions):

	2012	2011	% Change Reported	Non-GAAP Constant Currency (a) 2012 Adjusted Amount	% Change Adjusted
Net Sales					
North America	$ 1,450.6	$ 1,271.5	14.1%	$ 1,455.9	14.5%
EMEA	512.7	505.9	1.3%	541.1	7.0%
APSA	502.6	487.4	3.1%	501.1	2.8%
Segment net sales	2,465.9	2,264.8	8.9%	2,498.1	10.3%
Australia distribution one-time sale		46.3			n/m
Foreign exchange				(32.2)	n/m
Net sales	$ 2,465.9	$ 2,311.1	6.7%	$ 2,465.9	6.7%

	2012	2011	% Change Reported	Non-GAAP Constant Currency (a) 2012 Adjusted Amount	% Change Adjusted
Operating Income					
North America	$ 393.5	$ 360.9	9.0%	$ 389.9	8.0%
EMEA	123.6	120.3	2.7%	128.9	7.1%
APSA	114.8	91.0	26.2%	104.2	14.5%
Segment operating income	631.9	572.2	10.4%	623.0	8.9%
Deduct:					
Foreign exchange				(8.9)	
Business separation costs (Note 6)	13.8	83.8		13.8	
Restructuring charges (Note 7)	4.3	7.7		4.3	
Asset impairment charges (Note 12)	15.6	31.3		15.6	
Other charges (Note 7)	22.3	17.9		22.3	
Unallocated corporate costs (Note 21)		36.0			
Operating income	$ 575.9	$ 395.5	45.6%	$ 575.9	45.6%

(a) The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

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We also evaluate our segment net sales on a comparable basis (a non-GAAP measure). In the following discussion, we refer to sales presented on this basis as comparable net sales. Below is a reconciliation of GAAP segment net sales growth to comparable segment net sales growth for 2012 as compared to 2011.

	North America	EMEA	APSA
Net sales growth (GAAP)	14%	1%	3%
Foreign exchange rates [a]		6%	
Acquisitions/divestitures [a]	(7)%	(2)%	
Australia distribution margin structure [a]			2%
Comparable net sales growth (Non-GAAP)	7%	5%	5%

(a) See Presentation Basis and Non-GAAP Measures above for a description of these adjustments.

North America

As compared with 2011, North America net sales increased 14% on a GAAP basis and 15% on a constancy currency basis in 2012. Further adjusting constant currency net sales for the impact of acquisitions/divestitures, North America s comparable net sales increased 7% in 2012. The acquisition impact (7%) was due to the acquisition of the Pinnacle assets and Cooley, which were acquired in May 2012 and January 2012, respectively. The comparable net sales increase was due to higher organic volumes (4%) as well as favorable price/mix (3%). The largest contributors to organic volume growth were increased demand for bourbon brands and the expansion of the Pinnacle brand. In addition, innovations helped drive both volume and price/mix benefits. These innovations included new Jim Beam Red Stag flavors, extensions of the Skinnygirl family of products including vodka and wine, and a new Pinnacle vodka flavor, as well as Knob Creek Rye. Geographically, the U.S., Canada, and Mexico contributed to comparable net sales growth.

As compared with 2011, North America operating income increased $33 million, or 9%, on a GAAP basis and 8% on a constant currency basis in 2012. Constant currency operating income increased principally from increased gross profit from higher net sales and operating leverage, partially offset by a significant increase in advertising and marketing expense.

Europe/Middle East/Africa

As compared with 2011, EMEA net sales increased 1% on a GAAP basis and 7% on a constancy currency basis in 2012. The negative foreign currency exchange impact on our GAAP results was primarily due to decreases in the Euro exchange rate relative to the U.S. dollar. Further adjusting constant currency net sales for the impact of acquisitions/divestures, EMEA s comparable net sales increased 5% in 2012. The acquisition impact (2%) was due to the Cooley acquisition in January 2012. The comparable net sales increase was due to favorable price/mix (3%) and higher organic volumes (2%) The price/mix benefit primarily related to Jim Beam, Courvoisier, and Laphroaig. Volume growth across EMEA was primarily due to the Jim Beam family of products as well as Courvoisier, partially offset by declines related to certain of our Spanish Value Creator brands. Comparable net sales growth was primarily due to increased sales in markets such as Germany, Russia, and Travel Retail, which more than offset the adverse impacts of economically challenged markets, particularly Spain, where the value of the spirits market declined at a mid-to-high single-digit rate.

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As compared to 2011, EMEA operating income increased $3 million, or 3%, on a GAAP basis and 7% on a constant currency basis in 2012. The negative foreign currency exchange impact on our GAAP results was primarily due to decreases in the Euro exchange rate relative to the U.S. dollar. Constant currency operating income benefited from increased gross profit from higher net sales, as discussed above, a reversal of a non-income tax accrual for a closed review period, and a reduction in bad debt expense, partially offset by an increase in advertising and marketing expense.

Asia-Pacific/South America

As compared with 2011, APSA net sales increased 3% on both a GAAP basis and constant currency basis. Further adjusting constant currency net sales for the impact of the Australia distribution margin structure change in 2011 (2%), APSA comparable net sales increased 5% in 2012. APSA comparable net sales growth was due to higher organic volumes (4%) and a price/mix benefit (1%). Higher volume was driven by growth in Jim Beam, Courvoisier, Canadian Club, and Teacher s. Volume benefited from innovations partially offset by decreased sales of Value Creators. Price/mix also benefited from the strength of our Power Brands. Volume growth was primarily due to increased sales in markets such Australia, China, Brazil, and North Asia.

As compared with 2011, APSA operating income increased $24 million, or 26%, on a GAAP basis and 15% on a constant currency basis in 2012. The difference between GAAP and constant currency operating income growth rates (11%) was primary due to Australia. Constant currency operating income benefited from increased gross profit due to higher sales and enhanced routes to market in China and Southeast Asia.

In India, the ongoing conduct of our internal investigation and implementation of remedial measures have had, and will likely continue to have over the near term, a disruptive effect. We anticipate that year-over-year growth rates in APSA will be adversely impacted through the third quarter of 2013 as a result. Refer to Note 18, *Commitments and Contingencies*, to our financial statements included in this report for additional information.

Consolidated Results for 2011 Compared to 2010

Net sales

Net sales increased $216 million, or 10%, from $2.1 billion in 2010 to $2.3 billion in 2011. The increase in net sales was driven by an increase in volume of 3% as well as favorable product mix of 5%. Our Power Brands and Rising Stars brands grew 12% and 52%, respectively, reflecting strong growth at the premium end of our portfolio, achieved through a significant increase in advertising and marketing expense behind these brands as well as innovation in 2011. The remaining increase in net sales is attributed to favorable foreign currency exchange of 3% and the impact of a one-time sale of inventory related to transitioning to our new long-term distribution agreement in Australia of 2%, partially offset by the combination of the ongoing impact of our Australia distributor agreement and the net impact of acquisitions and divestitures (primarily due to the sale of non-strategic German spirits brands and inventories and the Cockburn s port business in 2010) of 3%. In 2011, we transitioned from an agency agreement to a manufacturing and distribution agreement in Australia. Under the new agreement, our net sales are lower as our distributor is now responsible for and incurs distribution and selling costs that were previously incurred by Beam.

Cost of goods sold

Cost of goods sold increased $123 million, or 14%, from $865 million in 2010 to $988 million in 2011. Cost of goods sold increased 10% primarily due to higher sales, start-up costs associated with new products, an increase in commodities (including corn, rye and other grains) and other raw material costs of approximately $20 million, partially offset by the favorable impact of our productivity initiatives achieved under our Fuel Our Growth strategy. The remaining increase in cost of goods sold is primarily attributed to the unfavorable impact of foreign currency translation (approximately $34 million), the impact of a one-time sale of inventory related to transitioning to our new long-term distribution agreement in Australia (net of the ongoing impact of the Australia agreement), and $10 million of higher charges in 2011 versus 2010, partially offset by the above mentioned net impact of acquisition and divestitures.

Advertising and marketing expense

Advertising and marketing expense increased $51 million, or 17%, from $308 million in 2010 to $359 million in 2011. We substantially increased advertising and marketing expense in the year to build and enhance our core brand equities, principally our Power Brands and Rising Stars, drive net sales growth in the year and position our brands for long-term growth. We increased advertising and marketing expense across all segments, principally North America and Asia-Pacific/South America.

Selling, general and administrative expense

Selling, general and administrative expense increased $14 million, or 3%, from $416 million in 2010 to $430 million in 2011. Increased strategic investments in new product development to support innovation initiatives, higher variable selling costs in North America resulting from strong sales growth (particularly in the U.S.), and selling and administrative costs in APSA incurred to build infrastructure regionally and within our key emerging markets increased selling, general and administrative expense, collectively, by approximately 7%. These higher costs were partially offset by the favorable impact of lower Fortune Brands, Inc. corporate overhead.

In 2011, selling, general and administrative expenses included corporate and other general and administrative overhead costs related to the former Fortune Brands, Inc. management structure through the Spin-Off (October 3, 2011) of approximately $61 million as compared to approximately $86 million for 2010, a decrease of $25 million, which was partially offset by incremental corporate costs we incurred in the fourth quarter of 2011. Selling, general and administrative expense for 2011 also included acquisition-related contingent consideration of $28 million based on the actual and forecasted performance of the acquired business. Selling expenses under our new manufacturing and distribution agreement in Australia decreased in 2011, because our distributor is responsible for selling costs under the new agreement. In addition, other charges included in selling, general and administrative expense decreased by $6 million from 2010.

Business separation costs

Business separation costs incurred in connection with the Separation Transactions were $84 million and $2 million in the years ended December 31, 2011 and 2010, respectively. Business separation costs for 2011 consisted of $44 million of financial, legal and other separation-related advisory fees, as well as $40 million of employee-related costs primarily related to termination benefits and incremental stock-based compensation expense incurred as a result of the modification of certain outstanding Fortune Brands, Inc. equity awards in anticipation of the conversion of these awards to Beam and Home & Security equity awards. Business separation costs of $2 million in 2010 principally related to transaction and professional advisory fees incurred in connection with the Separation Transactions.

Restructuring charges

In 2011, restructuring charges of $8 million related to distribution and supply-chain initiatives, facility consolidations, and organizational streamlining initiatives. We completed a significant supply-chain initiative towards the end of 2011 with the consolidation of our U.S. bottling facilities into our expanded operations and center of excellence in Frankfort, Kentucky. In 2010, restructuring charges of $15 million related to organizational streamlining initiatives.

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Asset impairment charges

We recorded a non-cash impairment charge of $31 million to reduce the DYC and Larios tradenames to their estimated fair value in December 2011. The asset impairments were due to the combined effect of the economic downturn on sales in key geographic markets (principally Spain), as well as the effect of substantially higher interest rates. Refer to Critical Accounting Policies and Estimates Intangible Assets below and Note 12, *Goodwill and Other Intangible Assets*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information. There were no asset impairment charges in 2010.

Loss on sale of brands and related assets

In December 2010, we sold the Cockburn s port brand and related U.S., U.K. and Portugal inventory. In connection with the sale, we recorded a pre-tax loss of $7 million ($7 million after tax). In August 2010, we sold certain non-strategic German spirits brands and related assets. In connection with the sale, we recorded a pre-tax loss of $9 million ($12 million after tax).

Operating income

Operating income decreased $61 million, or 13%, from $456 million in 2010 to $396 million in 2011. Our consolidated operating income was significantly impacted by several unusual items described above, including business separation costs ($84 million), asset impairment charges ($31 million) and contingent consideration for a business acquisition ($25 million), partially offset by the one-time benefit of the sale of product under our new Australia distribution agreement ($24 million). The unfavorable increase in unusual costs was also partially offset by favorable foreign currency impacts ($16 million), lower Fortune Brands, Inc. corporate costs in 2011 as compared to 2010 ($25 million) as a result of the Spin-Off occurring at the start of fourth quarter of 2011 and the absence of a loss on sale of non-strategic brands in 2010 of $16 million.

Interest expense

Interest expense decreased $26 million, or 18%, primarily due to lower average borrowings, as well as lower average interest rates. We reduced our outstanding debt by approximately $2.3 billion during 2011. Refer to the section Liquidity and Capital Resources below for additional information regarding the reduction of debt during 2011.

Loss on early extinguishment of debt

The loss on early extinguishment of debt of $149 million consists of $155 million of purchase premiums and $7 million of accelerated unamortized debt issuance costs, partially offset by $13 million attributed to the amortization/write-off of deferred gains on terminated interest rate swaps related to the extinguished debt. Refer to the section Liquidity and Capital Resources below for additional information regarding the reduction of debt during 2011.

Other income

Other income increased $7 million, or 22%, from $33 million in 2010 to $40 million in 2011. In 2011, we recognized income of $26 million upon receipt of tax indemnification payments from Pernod Ricard in connection with Mexican income tax audit settlements and $10 million related to a distribution from the wind down of our Maxxium joint venture investment. In 2010, we recognized income of $37 million upon receipt of tax indemnification payments from Pernod Ricard in connection with Spanish income tax audit settlements. Other income also includes non-operating (income) expense, such as interest income, transaction gains and losses related to foreign currency denominated transactions as well as equity (income) and expense.

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Income taxes

Our effective income tax rate was 21.3% and 10.5% for 2011 and 2010, respectively. The effective income tax rate in 2011 was unfavorably impacted by non-deductible business separation costs and a tax assessment related to the settlement of a Mexican income tax audit. The effective tax rate in 2011 was favorably impacted by the tax-free treatment of indemnification income received in connection with a settlement of the Mexican income tax audit and the resolution of a German tax audit. The effective income tax rate in 2010 was favorably impacted by tax benefits of approximately $46 million related to final settlement of U.S. and Spanish federal income tax audits. The effective tax rate in 2010 was also favorably impacted by the tax-free treatment of indemnification proceeds received in connection with the settlement of a Spanish income tax audit. See Note 9, *Income Taxes*, of the Notes to the Consolidated Financial Statements for additional information related to our effective tax rate in 2011 and 2010.

Income from discontinued operations

Income from discontinued operations, net of tax, was $782 million in 2011 compared to $187 million in 2010, reflecting the discontinued operations of both our former Golf business and former Home & Security business. During 2011, we recorded a gain of $687 million on the sale of the Golf business.

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Segment Results for 2011 Compared to 2010

The following table sets forth net sales and operating income by operating segment for 2011 and 2010 as reported and adjusted to exclude the impact of foreign exchange translation (in millions):

				Non-GAAP Constant Currency (a)	
Net Sales	**2011**	**2010**	**% Change Reported**	**2011 Adjusted Amount**	**% Change Adjusted**
North America	$ 1,271.5	$ 1,161.8	9.4%	$ 1,266.3	9.0%
EMEA	505.9	477.8	5.9%	483.9	1.3%
APSA	487.4	455.3	7.1%	450.6	(1.0)%
Segment net sales	2,264.8	2,094.9	8.1%	2,200.8	5.1%
Australia distribution one-time sale	46.3			46.3	n/m
Foreign exchange				64.0	n/m
Net sales	$ 2,311.1	$ 2,094.9	10.3%	$ 2,311.1	10.3%

				Non-GAAP Constant Currency (a)	
Operating Income	**2011**	**2010**	**% Change Reported**	**2011 Adjusted Amount**	**% Change Adjusted**
North America	$ 360.9	$ 359.8	0.3%	$ 363.1	0.9%
EMEA	120.3	98.7	21.9%	111.1	12.6%
APSA	91.0	93.8	(3.0)%	82.5	(12.0)%
Segment operating income	572.2	552.3	3.6%	556.7	0.8%
Foreign exchange				(15.5)	
Business separation costs (Note 6)	83.8	2.3		83.8	
Restructuring charges (Note 7)	7.7	15.4		7.7	
Asset impairment charges (Note 12)	31.3			31.3	
Loss on the sale of brands and related assets (Note 3)		16.0			
Other charges (Note 7)	17.9	10.5		17.9	
Unallocated corporate costs (Note 21)	36.0	51.9		36.0	
Operating income	$ 395.5	$ 456.2	(13.3)%	$ 395.5	(13.3)%

(a) The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts. Segment net sales and operating income in the following discussion are stated excluding the impact of foreign exchange translation and related hedging impacts.

North America

North America net sales increased $105 million or 9% from $1.2 billion in 2010 to $1.3 billion in 2011. Favorable product mix and increased volume each contributed roughly equally to year-over-year sales growth. Net sales volume and product mix benefited from new product innovations, such as Pucker Flavored Vodka, Jim Beam Devil s Cut and Red Stag, as well as the acquisition and growth of the

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Skinnygirl ready-to-drink cocktail brand in addition to strength in our Power Brands and Rising Stars brands. By geographic market, sales increases in the U.S. and Canada were partially offset by a decrease in Mexico driven by a transition to a new distributor in the fourth quarter.

North America operating income increased by $3 million or 1% from $360 million in 2010 to $363 million in 2011. Operating income increased at a rate below the increase in net sales principally due to double digit increases in advertising and marketing expense, new product start-up and innovation costs, including Skinnygirl, as well as higher commodity costs without the benefit of price increases.

Europe/Middle East/Africa

EMEA net sales increased $6 million or 1% from $478 million in 2010 to $484 million in 2011. The increase in net sales includes the adverse impact of the July 2010 divestiture of non-strategic local German brands (approximately $30 million or 7%). Net sales benefited primarily from volume and favorable product mix, including new product innovations, such as Sourz Raspberry and Jim Beam Red Stag as well strong growth of our Power Brands in Germany, Russia and travel retail, partially offset by decreases in economically challenged markets, including the U.K. and Spain.

EMEA operating income increased $12 million or 13% from $99 million in 2010 to $111 million in 2011 resulting from favorable product and market mix, including our Power Brands in Germany, Russia, the U.K. and travel retail as well as effective cost management, productivity initiatives and the divestiture of non-strategic German brands and the Cockburn s port business in 2010 which carried lower average margins.

Asia-Pacific/South America

APSA net sales decreased $4 million or 1% from $455 million in 2010 to $451 million in 2011 driven by the adverse impact on net sales of 9% related to the ongoing impact of our new distribution agreement in Australia. In 2011, we transitioned from an agency agreement to a manufacturing and distribution agreement in Australia. Under the new agreement, our net sales are lower as our distributor is now responsible for and incurs distribution and selling costs that were previously incurred by Beam. The adverse impact of the new Australian agreement on reported net sales was mostly offset by volume increases for Power Brands Jim Beam, Canadian Club, and Teacher s in the APSA segment, primarily in Australia and emerging markets such as India.

APSA operating income decreased $11 million or 12% from $94 million in 2010 to $83 million in 2011 as a result of our planned investments within the segment to support long-term growth, including an investment in sales and distribution infrastructure in India and Brazil as well as double digit increases advertising and marketing to support brand-building in Australia.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capitalization

The ratio of total debt to total capital increased to 35.2% at December 31, 2012 from 32.0% at December 31, 2011, primarily due to an increase in outstanding debt (discussed below), partially offset by higher equity resulting from 2012 net income, proceeds from stock option exercises, and changes in foreign currency exchange rates.

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 on May 31, 2012.

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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 pays interest on the Notes semi-annually, in arrears, on May 15 and November 15 of each year. 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.

In December 2011, we executed a $750 million, 5-year committed revolving credit agreement (the Credit Agreement) to be used for general corporate purposes. As of December 31, 2012, there were no amounts outstanding under the Credit Agreement. The Company may, subject to the satisfaction of certain conditions, request that the aggregate principal amount of the facility be increased by up to $250 million in the aggregate.

As of December 31, 2012, we had total cash and cash equivalents of $366 million, a majority of which was held in foreign currencies at non-U.S. subsidiaries. The permanent repatriation of non-U.S. cash balances from certain subsidiaries where we have indefinitely reinvested such earnings could have adverse tax consequences as we may be required to pay and record income tax expense on those funds to the extent they were previously considered indefinitely reinvested. However, we currently do not expect a repatriation of this nature and we believe that we are able to maintain required liquidity due to the following:

- We manage our global cash requirements considering (i) operating cash flows generated by our domestic operations and available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances.

- Should we require additional funding in the U.S. than is generated by our domestic operations, we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the U.S. through debt or equity issuances. We believe that our access to the debt markets, including access to our committed revolving credit facility ($750 million), is a viable alternative to repatriation of indefinitely reinvested foreign earnings that would be subject to additional U.S. tax expense. These actions could result in higher effective tax rates, increased interest expense, and dilution of our earnings.

We have an investment grade credit rating from three credit rating agencies. We believe that our cash from operations, Credit Agreement and other sources of liquidity will be sufficient to fund current operations, service outstanding indebtedness and pay dividends.

In January 2013, we repaid, upon maturity, the remaining principal of our 219 million ($297 million) 4% notes primarily with existing cash and supplemented with short-term borrowings.

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Cash Flows

Below is a summary of cash flows for the years ended December 31, 2012, 2011, and 2010 (in millions). Operating, investing, and financing cash flows presented include the cash flows related to discontinued operations (i.e., we have not recast our statement of cash flows to remove cash activity related to the discontinued operations). The line item Change in cash included in assets of discontinued operations represents the net change in specifically identifiable cash accounts of the discontinued operations.

	2012	2011	2010
Net cash provided by operating activities	$ 378.2	$ 454.5	$ 770.6
Net cash (used in) provided by investing activities	(802.1)	918.2	(73.0)
Net cash provided by (used in) financing activities	564.2	(2,002.5)	(248.5)
Effect of foreign exchange rate changes on cash	7.1	(16.6)	(1.6)
Change in cash included in assets of discontinued operations		53.2	(0.8)
Net increase (decrease) in cash and cash equivalents	$ 147.4	$ (593.2)	$ 446.7

Operating Activities

Net cash provided by operating activities was $378 million in 2012 compared to $455 million in 2011. Operating cash flow was lower in the 2012 period due to a decrease in cash provided by the Golf business (which was sold in July 2011) and the Home & Security business (which was spun-off in October 2011) and increased expenditures to produce and store aging spirits inventory to support future growth, partially offset by a net benefit associated with the timing and amount of certain working capital items.

Operating cash flows for 2012 included approximately $85 million of cash outflows related to discontinued operations and liabilities related to the Separation Transactions completed in 2011, primarily consisting of incentive compensation, severance and pension benefits for former Fortune Brands executives, indemnity payments related to tax matters, and settlement of a legal matter.

Net cash provided by operating activities was $455 million in 2011 compared to $771 million in 2010. The decrease of $316 million was primarily due to a decrease in cash provided by the Golf business (which was sold in July 2011) and the Home & Security business (which was spun-off in October 2011), and higher cash payments related to business separation costs.

Investing Activities

Net cash used in investing activities was $802 million in 2012 as compared to cash provided by investing activities of $918 million in 2011. The net cash used in 2012 was primarily due to cash used for the acquisitions of the Pinnacle assets and the Cooley business totaling $685 million, while the net cash provided in 2011 was primarily due to proceeds of $1.3 billion from the sale of our Golf business. Capital expenditures were $137 million in 2012 and were primarily related to the purchase of new oak barrels required to produce bourbon, the completion of our new Global Innovation Center and American Stillhouse visitors center in Kentucky, warehouse capacity expansion at Maker s Mark, capacity expansion to support future growth in bourbon, scotch, and cognac, and capitalized software additions. Capital expenditures in 2011 included capital expenditures from the continuing Beam business of approximately $166 million.

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Net cash provided by investing activities was $918 million in 2011 compared to $73 million of net cash used in investing activities in 2010. The increase of $991 million was primarily due to higher net proceeds received in 2011 from the sale of assets, including net proceeds of $1.3 billion from the sale of the Golf business. Partially offsetting this increase was $116 million of cash transferred to Home & Security in connection with the Spin-Off and net cash used in 2011 for acquisitions of $46 million. Capital expenditures were $219 million in 2011, of which $166 million related to continuing operations.

Financing Activities

Net cash provided by financing activities was $564 million in 2012 as compared to $2,003 million of net cash used in 2011. Cash proceeds of $593 million were received in the 2012 period from the issuance of long-term debt to fund the acquisition of the Pinnacle assets. Net cash outflows of $1.9 billion in the 2011 period related to the repayment of outstanding long-term debt, which was primarily due to the 2011 Separation Transactions, partially offset by a $500 million dividend received from Home & Security in connection with the Spin-Off (as discussed below).

Net cash used in financing activities was $2,003 million in 2011 compared to $249 million in 2010. The increase of $1,754 million was primarily due to higher repayments of debt of $2.3 billion primarily related to the Separation Transactions. Partially offsetting the cash used to repay debt was a $500 million dividend received from Home & Security in connection with the Spin-Off (reflected in Issuance of debt in the Consolidated Statement of Cash Flows). Immediately prior to the effective time of the Spin-Off, we received debt proceeds of $500 million from short-term debt financing that was issued by Home & Security and guaranteed by the Company prior to the debt being refinanced with a long-term Home & Security debt issuance after the Spin-Off. Also partially offsetting the increase in cash used in financing activities were higher proceeds from the exercise of stock options.

Dividends

A summary of 2012 dividend activity for the Company s common stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.205 per share	January 27, 2012	February 8, 2012	March 1, 2012
$0.205 per share	April 25, 2012	May 9, 2012	June 1, 2012
$0.205 per share	July 24, 2012	August 8, 2012	September 4, 2012
$0.205 per share	October 4, 2012	November 7, 2012	December 3, 2012

A summary of 2012 dividend activity for the Company s $2.67 Convertible Preferred stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.6675 per share	January 27, 2012	February 8, 2012	March 10, 2012
$0.6675 per share	April 25, 2012	May 9, 2012	June 10, 2012
$0.6675 per share	July 24, 2012	August 8, 2012	September 10, 2012

On January 25, 2013, we announced that our board of directors approved a 10% increase in the dividend on our common stock. Beginning with the payment on March 1, 2013, the dividend will increase 8 cents per share to an annual rate of $0.90 (payable 22.5 cents per quarter) from $0.82 per share (20.5 cents per quarter). We currently expect to pay quarterly cash dividends on our common stock in the future, but such payments are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth in the section of this Annual Report on Form 10-K entitled Item 1A. Risk Factors.

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On November 20, 2012, we completed the previously announced redemption of all outstanding shares (49,590 shares) of our $2.67 Convertible Preferred Stock that had not been converted in accordance with their terms into shares of our common stock. As a result of such redemption, there are no longer any issued and outstanding shares of our $2.67 Convertible Preferred Stock. Pursuant to the redemption, stockholders received an aggregate redemption price of $31.02 ($30.50 per share plus accrued and unpaid dividends of $0.52 per share) for each share redeemed.

Customer Credit Risk

We routinely grant unsecured credit to customers in the normal course of business. Accounts receivable were $456 million and $386 million as of December 31, 2012 and 2011, respectively, and are recorded at their stated amount less allowances for doubtful accounts. Allowances for doubtful accounts include provisions for certain customers where a risk of default has been specifically identified, as well as provisions based on other factors, such as the evaluation of historical write-offs, aging of balances and other qualitative and quantitative factors, when it is determined that some default is probable and estimable but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, the historical collection experience and existing economic conditions. In accordance with our policy, our allowance for doubtful accounts was $14 million and $10 million as of December 31, 2012 and 2011, respectively. Adverse conditions in the global economy and credit markets may reduce our customers ability to access sufficient liquidity and capital to fund their operations and make our estimation of customer defaults inherently uncertain. While we believe current allowances for doubtful accounts are adequate, it is possible that weakening economic conditions and other factors may cause significantly higher levels of customer defaults and bad debt expense in future periods.

Counterparty Risk

The counterparties to our derivative contracts are major financial institutions. Although our theoretical risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring losses is unlikely and that the losses, if any, would be immaterial to our results of operations, cash flows or financial condition. The fair value of our derivative assets at December 31, 2012 was $6 million. The estimated fair value of our derivative contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Pension Plans

We sponsor defined benefit pension plans that are funded by a portfolio of investments maintained within benefit plan trusts. We were not required to make any contributions in 2012 to comply with U.S. minimum funding requirements. In July 2012, we paid approximately $29 million for the distribution of pension benefits to certain Fortune Brands executives due to their departures from the Company at the end of 2011 in connection with the Separation Transactions. We are not required to make any contributions in 2013 to comply with U.S. minimum funding requirements based on current assumptions as of December 31, 2012. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by law with respect to the pension plans, including under the Pension Protection Act of 2006. As of December 31, 2012, the fair value of our total pension plan assets was $354 million, representing 74% of the accumulated benefit obligation liability.

Guarantees and Commitments

We have partially guaranteed credit facilities entered into by certain of our joint ventures. Our maximum guarantee exposure, assuming the credit facilities are fully utilized, is a total U.S. dollar equivalent of $25.6 million, of which our guarantee exposure was $23.1 million based on facilities utilized at December 31, 2012. The Company has not recorded a liability for these guarantees.

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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 $50 million and $40 million as of December 31, 2012 and 2011, respectively; at December 31, 2012, approximately $20 million is recorded within Other current liabilities and approximately $30 million is recorded within Other non-current liabilities on our consolidated balance sheet. The change in the liability amount is primarily due to increased obligations related to state and foreign income taxes indemnified under the agreement, and offset by our payment of a portion of the estimated obligation. Our actual obligation may differ based on closure of the tax period with the taxing authorities or a tax authority audit resulting in a change in the amount of tax due or refundable (including related interest and/or penalties if applicable).

Contractual Obligations and Other Commercial Commitments

The following table and discussion present our obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2012 (in millions).

	Payments Due by Period as of December 31, 2012				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Contractual Obligations[a]					
Short-term borrowings	$ 8.1	$ 8.1	$	$	$
Long-term debt[b]	2,481.9	469.3	339.6	700.0	973.0
Operating leases	71.5	15.5	20.5	16.8	18.7
Interest payments on long-term debt	1,020.7	123.2	174.5	128.6	594.4
Purchase obligations[c]	277.4	144.3	90.6		