BEAM INC
Form 10-K
February 18, 2014
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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, 2013

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. x

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 28, 2013 (the last day of our most recent second quarter) was $10,207,695,016 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, 2014, was 165,336,068.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant s Proxy Statement for the 2014 Annual Meeting of Stockholders (the Annual Meeting Proxy Statement) is incorporated by reference into Part III hereof. In the event we do not file the Annual Meeting Proxy Statement, this information will be provided instead by an amendment to this report not later than 120 days after the end of the registrant s fiscal year.

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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 Condition 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.

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). 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, Eastern Europe, Asia, and other geographies.

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 advertising and marketing program support 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 annual net sales (based on net sales for the year ended December 31, 2013). Our Power Brands and Rising Stars, which are the focus of our advertising and marketing programs, 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

Merger Agreement

On January 12, 2014, Beam entered into an Agreement and Plan of Merger (the Merger Agreement) with Suntory Holdings Limited, a Japanese corporation (Suntory Holdings), and SUS Merger Sub Limited, a Delaware corporation and a wholly-owned subsidiary of Suntory Holdings (Sub), providing for, subject to the satisfaction or waiver of specified conditions, the acquisition of Beam by Suntory Holdings at a price of $83.50 per share in cash. Subject to the terms and conditions of the Merger Agreement, Sub will be merged into Beam (the Merger), with Beam surviving the Merger as a wholly-owned subsidiary of Suntory Holdings. The Merger

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Agreement and the consummation of the transactions contemplated by the Merger Agreement have been unanimously approved by the Company s board of directors (the Board of Directors).

Pursuant to the Merger Agreement, at the effective time of the Merger (the Effective Time), each share (a Share) of common stock of the Company (Company Common Stock) issued and outstanding immediately prior to the Effective Time (other than (i) Shares held by stockholders of the Company who have properly exercised and perfected appraisal rights under Delaware law and (ii) Shares that are held in the treasury of the Company or owned of record by any wholly-owned subsidiary of the Company, Suntory Holdings or any wholly-owned subsidiary of Suntory Holdings) will be converted into the right to receive $83.50 per Share in cash, without interest.

The consummation of the Merger is subject to the satisfaction or waiver of specified closing conditions, including (i) the adoption of the Merger Agreement by the holders of a majority of the voting power of the outstanding Shares entitled to vote thereon, (ii) the receipt of required antitrust approvals in the U.S. and European Union, (iii) the absence of the occurrence of a Company Material Adverse Effect (as defined in the Merger Agreement) after the date of the Merger Agreement, and (iv) other customary closing conditions. The consummation of the Merger is not subject to a financing condition.

Additional information about the Merger Agreement is set forth in our Current Report on Form 8-K filed with the SEC on January 13, 2014.

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
- 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 various 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.

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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 January 2013, we sold certain non-strategic economy brands and related inventory for approximately $63 million. These brands, sold in North America, generated 2012 revenues of approximately $30 million on volumes of approximately 1.8 million cases. In connection with the sale, we recorded a pre-tax gain of $12 million ($8 million after tax) in 2013.

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.

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 of the strategy 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 57% of our consolidated net sales were generated in the U.S. (based on country of destination) for the year ended December 31, 2013. For additional financial information by segment, refer to Note 22, *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.

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% of our net sales for the fiscal years ended December 31, 2013 and 2012 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. Outside the U.S., 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, 2013, 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, 2013, 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, 2013 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.

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.

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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 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, 2013, the Company and its subsidiaries had approximately 3,300 employees, of which approximately 1,500 were based in the United States. Approximately 35% of our employees are covered by collective bargaining agreements, of which approximately 27% 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 22, *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 Item 1A Risk Factors.

Executive Officers of the Registrant

The information set forth in Item 10, Directors, Executive Officers and Corporate Governance in Part III of this report is hereby incorporated by reference.

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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 2013 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 and expectations 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, intends, 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:

- the satisfaction of the conditions precedent to the consummation of the Merger, including, without limitation, the receipt of stockholder and regulatory approvals;
- unanticipated difficulties or expenditures relating to the Merger;
- legal proceedings instituted against the Company and others following announcement of the proposed Merger;
- disruptions of current plans and operations caused by the announcement and pendency of the proposed Merger;
- potential difficulties in employee retention as a result of the announcement and pendency of the proposed Merger;
- the response of customers, distributors, suppliers and competitors to the announcement of the proposed Merger;
- 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 trade names;

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 Item 1A Risk Factors of this report.

Item 1A. Risk Factors.

We believe that the following risks and uncertainties may be material to our business and an investment in our securities. Additional risks and uncertainties that, as of the date of filing this report, we consider to be immaterial may also adversely affect the Company. If any of the following risks actually occur, our business, results of operations, cash flows, and financial condition could be materially and adversely impacted.

Risk Factors Related to the Merger

The proposed Merger may not be completed within the expected timeframe, or at all, and the failure to complete the Merger could adversely affect our business and the market price of our common stock.

On January 12, 2014, we entered into the Merger Agreement with Suntory Holdings. The Merger Agreement is an executory contract subject to closing conditions beyond our control, and there is no guarantee that these conditions will be satisfied in a timely manner or at all. Completion of the Merger is subject to various conditions, including the adoption of the Merger Agreement by the affirmative vote of the holders of a majority of all of the outstanding shares of our common stock entitled to vote and the receipt of regulatory approvals in

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the U.S. and European Union, among other things. If any of the conditions to the proposed Merger are not satisfied (or waived by the other party), the Merger may not be completed. In addition, the Merger Agreement may be terminated under certain specified circumstances, including a change in the recommendation of our Board of Directors or our termination of the Merger Agreement to enter into an agreement for a superior proposal, as defined in the Merger Agreement. Failure to complete the Merger could adversely affect our business and the market price of our common stock in a number of ways, including the following:

- If the Merger is not completed, and there are no other parties willing and able to acquire the Company at a price of $83.50 per share or higher, on terms acceptable to us, our stock price will likely decline as our stock has recently traded at prices based on the proposed per share consideration for the Merger.
- We have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Merger, for which we will have received little or no benefit if the Merger is not completed. Many of these fees and costs will be payable by us even if the Merger is not completed and may relate to activities that we would not have undertaken other than to complete the Merger.
- A failed Merger may result in negative publicity and a negative impression of us in the investment community.
- Upon termination of the Merger Agreement by the Company or Suntory Holdings under specified circumstances, we would be required to pay a termination fee of $275 million or $425 million.

The Merger Agreement contains provisions that could discourage or make it difficult for a third party to acquire us prior to the completion of the proposed Merger.

The Merger Agreement contains provisions that restrict our ability to entertain a third party proposal to acquire us. These provisions include the general prohibition on our soliciting or engaging in discussions or negotiations regarding any alternative acquisition proposal, subject to certain exceptions. We are also required to pay a termination fee of up to $425 million if the Merger Agreement is terminated in specified circumstances, including if we enter into a definitive acquisition agreement for a superior proposal (which fee is reduced to $275 million if we enter into such a definitive acquisition agreement on or before 5:00 p.m. Central time on February 26, 2014). These provisions might discourage an otherwise-interested third party from considering or proposing an acquisition transaction, even one that may be deemed of greater value than the proposed Merger to our stockholders. Furthermore, even if a third party elects to propose an acquisition, the requirement on our part to pay a termination fee may result in that third party offering a lower value to our stockholders than such third party might otherwise have offered.

The announcement of the proposed Merger could adversely affect our business, financial condition, and results and operations.

The announcement and pendency of the proposed Merger could cause disruptions in and create uncertainty surrounding our business, which could have an adverse effect on our business, financial condition, and results and operations, regardless of whether the Merger is completed. These risks to our business include the following, all of which could be exacerbated by a delay in the completion of the Merger:

- the diversion of significant management time and resources towards the completion of the Merger;
- the impairment of our ability to attract, retain, and motivate key personnel, including our senior management;
- difficulties maintaining relationships with customers, suppliers, and other business partners;

the inability to pursue alternative business opportunities or make appropriate changes to our business because of requirements in the Merger Agreement that we conduct our business in the ordinary course

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of business consistent with past practice and not engage in certain kinds of transactions prior to the completion of the proposed Merger; and

litigation relating to the Merger and the costs related thereto.

Risk Factors Related to our Business

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, cash flows, and financial condition.

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.

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 stockholder value. Acquisitions and joint ventures involve risks and uncertainties, including:

difficulties integrating acquired companies and operating joint ventures;

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- 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.

In addition, 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

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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*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K, 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.

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 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, Brazilian real, British pound sterling, Euro, Canadian dollar, Indian rupee, Mexican peso, and Singaporean dollar) 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 and market, 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, cash flows, and financial condition.

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.

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, including any downgrade as a result of the announcement of the Merger, 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.

Our business may be negatively impacted by continued increases in the costs and funding of medical and pension benefits 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.

Future tax law changes 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.

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 results of operations 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 impairment. The carrying value of other intangible assets represents the fair value of trademarks, trade names, 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 2013, 2012, and 2011, we recorded impairment charges of $49.5 million, $15.6 million, and $31.3 million, respectively, to adjust certain Spanish trade names 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. In addition, certain assumptions and estimates used in determining the fair value of our goodwill and indefinite-lived trade names are outside the control of management, including interest rates (in the U.S. and abroad), exchange rates, the cost of capital, and tax rates. Due to the uncertainty of these items, we cannot predict whether a future impairment will result.

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

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failure at one of our major distillation, bottling or warehouse 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.

There is also 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.

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, 2013:

	Owned	Leased
Production and Warehouse Facilities:		
Canada	6	
France	8	
India	1	20
Mexico	3	8
Spain	11	1
U.K.	3	
U.S. Kentucky	13	2
U.S. Maine		3
U.S. Virgin Islands	3	
Total	48	34
Distribution Facilities:		
Germany (EMEA)		1
India (APSA)		7
Spain (EMEA)	1	
Total	1	8
Total	49	42

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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, Austria, 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.

Litigation Related to the Merger

On January 15, 2014, a putative class action lawsuit (*Chichester* v. *Beam Inc., et al.*, Case No. 9259-VCN) was filed in the Delaware Court of Chancery against Beam, the members of the Board, Suntory Holdings and Sub. The complaint alleged that our directors breached their fiduciary duties by, among other things, (i) initiating a process to sell Beam that undervalues it; (ii) capping the price of Beam at an amount that does not adequately reflect Beam s true value; (iii) ignoring or not protecting against purported conflicts of interests resulting from the directors own interests; and (iv) taking steps to avoid competitive bidding by alternate potential acquirers. The complaint also alleged that Beam and Suntory Holdings aided and abetted those alleged breaches of fiduciary duties by Beam s directors. The complaint sought, among other things, declaration of the action as a proper class action; certification of the plaintiff as a representative of the class and plaintiff s counsel as class counsel; injunctive relief; an accounting of all shares, money and other value improperly received from Beam; damages, including rescissory damages, in favor of plaintiff and the class; and the fees and costs associated with the litigation. From January 24, 2014 through February 5, 2014, seven additional lawsuits were filed in the Delaware Court of Chancery, asserting similar claims and allegations to those in the *Chichester* complaint, and seeking similar relief on behalf of the same putative class. On February 10, 2014, the actions were consolidated under the caption *In re Beam Inc. Stockholders Litigation*, Case No. 9301-VCN.

Additionally, from January 16, 2014 through January 29, 2014, three lawsuits were filed in the Circuit Court of Cook County, Illinois, Chancery Division. The complaints asserted similar claims and allegations to those in the *Chichester* complaint, and each sought similar relief on behalf of the same putative class. On February 10, 2014, these actions were consolidated under the caption *Miller v. Beam Inc., et al.*, Case No. 2014-CH-00932.

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.

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, 2013, 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 four cases reported in our Annual Report on Form 10-K for the year ended December 31, 2012. As of December 31, 2013, 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 were no tobacco-related cases terminated in 2013 in which the Company was named as one of the defendants.

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, 2013, B&W and/or R.J. Reynolds Tobacco Company had been served in approximately 5,147 pending cases (the Engle progeny cases) in Florida. As of December 31, 2013, approximately 107 Engle progeny cases have been tried to verdict in state and federal court, approximately 73 of which resulted in adverse judgments against tobacco companies. Of those approximately 73 adverse judgments, approximately 56 resulted in adverse judgments against the Indemnitor. As of December 31, 2013, 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 twelve Engle progeny cases as of December 31, 2013. 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. On February 25, 2013, the U.S. Court of Appeals for the District of Columbia granted defendants unopposed motion to hold this appeal in abeyance pending the District Court s resolution of implementation issues regarding the corrective statements. 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.

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, internal investigations, and environmental matters. Some of the legal proceedings to which we are subject include claims for substantial or unspecified damages. We believe that there are meritorious defenses to these legal proceedings 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.

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

	2013			2012		
	High	Low	Dividend Per Share	High	Low	Dividend Per Share
First Quarter	$ 63.77	$ 59.42	$ 0.225	$ 59.11	$ 49.74	$ 0.205
Second Quarter	69.78	60.13	0.225	64.00	55.15	0.205
Third Quarter	67.21	60.82	0.225	63.50	56.72	0.205
Fourth Quarter	70.63	64.43	0.225	62.19	52.69	0.205
Total			$ 0.90			$ 0.82

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.

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. Under the Merger Agreement described in Part I Item 1. Business Merger Agreement, we are prohibited from declaring, setting aside, making or paying any dividend or other distribution on our common stock other than quarterly dividends to holders of common shares in a per share amount no greater than the quarterly dividend declared and paid by the Company during the fiscal quarter ended December 31, 2013 ($0.225 per share), with record and payment dates in accordance with the Company s customary dividend schedule.

On January 31, 2014, there were 15,553 record holders of the Company s common stock, par value $3.125 per share.

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Stock Performance Graph

The following graph 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.

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.

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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.

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.

In connection with preparing our consolidated financial statements for the three and six months ended June 30, 2013, we identified errors that affected prior interim and annual periods related to the timing of recognition of sales of non-branded spirits, primarily Canadian whisky, and other immaterial out of period items. As discussed in Note 1, *Description of Business, Basis of Presentation, and Summary of Significant Accounting Principals Revision of Prior Period Financial Statements,* of the Notes to the Consolidated Financial Statements (Note 1), the prior period errors were not material to any of our previously issued financial statements.

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The financial information in the below table for the years ended, and as of, December 31, 2013, 2012, and 2011 have been revised to correct these errors, and certain other immaterial errors that had been identified in 2013 and 2012. As described in Note 1, we made an adjustment to retained earnings for the amount of the errors that originated before January 1, 2011 (prior period errors). The selected financial data for 2010 and 2009 has not been adjusted because these prior-period errors do not have a significant impact on the selected income statement and balance sheet data presented.

	For the year ended December 31,				
(In millions, except per share amounts)	**2013**	**2012**	**2011**	**2010**	**2009**
Income Statement Data					
Sales [(a)]	$ 3,148.4	$ 3,063.9	$ 2,859.6	$ 2,665.9	$ 2,469.6
Less: Excise taxes	(601.1)	(604.2)	(560.6)	(571.0)	(489.3)
Net sales [(a)]	2,547.3	2,459.7	2,299.0	2,094.9	1,980.3
Cost of goods sold [(b)]	1,067.9	1,023.7	985.6	865.0	782.7
Gross profit	1,479.4	1,436.0	1,313.4	1,229.9	1,197.6
Advertising and marketing expense	401.0	398.7	358.7	307.6	275.7
Selling, general and administrative expense [(c) (d)]	392.2	412.9	430.0	416.1	384.2
Amortization of intangible assets	17.5	17.2	16.3	16.3	17.3
Business separation costs[(e)]		13.8	83.8	2.3	
Restructuring charges	15.3	4.3	7.7	15.4	28.8
Asset impairment charges	49.5	15.6	31.3		92.5
(Gain) loss on sale of brands and related assets	(13.2)			16.0	
Operating income	617.1	573.5	385.6	456.2	399.1
Interest expense	91.6	109.0	117.4	143.7	143.6
Loss on early extinguishment of debt	56.9		149.2		
Other (income) expense [(f)]	(8.8)	(35.1)	(40.4)	(33.2)	7.5
Income from continuing operations	477.4	499.6	159.4	345.7	248.0
Income taxes [(g)]	111.9	96.2	39.8	36.2	13.3
Income from continuing operations, net of tax	$ 365.5	$ 403.4	$ 119.6	$ 309.5	$ 234.7
Earnings per common share continuing operations					
Basic	$ 2.26	$ 2.55	$ 0.77	$ 2.03	$ 1.56
Diluted	$ 2.24	$ 2.51	$ 0.76	$ 2.01	$ 1.55
Weighted-average common shares outstanding					
Basic	162.1	158.3	154.6	152.4	150.3
Diluted	163.4	160.8	157.8	154.3	151.8
Cash Flow Data					
Cash dividends declared per share of common stock	$ 0.90	$ 0.82	$ 0.76	$ 0.76	$ 1.01

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance Sheet Data					
Total assets	$ 8,584.7	$ 8,676.1	$ 7,520.4	$ 12,674.0	$ 12,370.6
Total assets (net of assets of discontinued operations)	8,584.7	8,676.1	7,520.4	8,262.2	7,903.0
Short-term debt [(h)]	12.8	480.1	28.4	611.4	39.9
Long-term debt	2,024.5	2,024.9	1,902.1	3,620.6	4,389.4

(a) 2012 includes $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).

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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) 2013 includes a $12 million benefit for the adjustment (decrease) in the fair value of estimated contingent consideration for our Skinnygirl ready-to-serve cocktail business based on revised estimated sales levels. 2013 also includes $9 million of legal, forensic accounting and other third-party expenses related to our India investigation and other charges related to repositioning that business. 2012 includes $17 million of acquisition/integration related expenses. 2011 includes $28 million of acquisition-related contingent consideration related to the Skinnygirl ready-to-serve cocktail business. 2010 includes restructuring-related charges of $7 million primarily related to restructuring activities. Refer to Note 2, *Acquisitions and Dispositions*, Note 7, *Restructuring and Other Charges*, and Note 18, *Commitments and Contingencies*, of the Notes to the Consolidated Financial Statements for additional information related to these items.

(d) Selling, general, and administrative expenses for 2009-2011 may not be comparable to selling, general, and administrative expenses for 2012 and 2013 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 22, *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 2005 acquisition of the businesses of $18 million (2012), $27 million (2011), and $37 million (2010).

(g) 2013 includes an $8 million benefit arising from the resolution of certain foreign tax return matters, and a $6 million benefit related to our decision in the first quarter of 2013 to participate in a tax amnesty program resulting in an adjustment to uncertain tax positions, partially offset by tax expense of $10 million in connection with foreign tax law changes. 2012 includes $22 million of excess net foreign tax credits related to U.S. taxes applicable to repatriation of current year foreign earnings and a $17 million net benefit related to the settlement of certain foreign and U.S. federal and state tax audit matters. 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 2009-2011 may not be comparable to income taxes in 2012 and 2013 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.

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.

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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.

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). 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, Eastern Europe, Asia, and other geographies.

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 advertising and marketing program support 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 annual net sales (based on net sales for the year ended December 31, 2013). Our Power Brands and Rising Stars, which are the focus of our advertising and marketing programs, 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

EXECUTIVE SUMMARY

Merger Agreement

As discussed in Part I Item 1. Business Merger Agreement, on January 12, 2014, we entered into the Merger Agreement with Suntory Holdings, a privately held Japanese corporation, the subsidiary companies of which are leading producers and distributors of alcoholic and non-alcoholic beverages.

Subject to the terms and conditions of the Merger Agreement, which has been unanimously approved by our boards of directors, Suntory Holdings will acquire all of the outstanding shares of Beam common stock for $83.50 per share in cash.

The consummation of the Merger is subject to the satisfaction or waiver of specified conditions, including (i) the adoption of the Merger by the holders of a majority of the outstanding shares of Beam common stock entitled to vote thereon, (ii) the receipt of antitrust approvals in the U.S. and European Union, (iii) the absence of the occurrence of a Company Material Adverse Effect (as defined in the Merger Agreement) after the date of the Merger Agreement and (iv) other customary closing conditions. The consummation of the Merger is not subject to a financing condition.

Revision of Prior Period Financial Statements

In connection with preparing our consolidated financial statements for the three and six months ended June 30, 2013, we identified errors that affected prior interim and annual periods related to the timing of recognition of sales of non-branded spirits, primarily Canadian whisky, and other immaterial out-of-period items.

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As discussed in Note 1, *Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies Revision of Prior Period Financial Statements,* of the Notes to the Consolidated Financial Statements, the prior period errors were not material to any of our previously issued financial statements. The prior period financial statements included in this Annual Report on Form 10-K have been revised to correct these errors, and certain other immaterial errors that had been identified in 2013 and 2012. The following discussion and analysis is based on the revised financial results.

Operational and Financial Highlights for 2013

The following is an overview of operational and financial results for the year ended December 31, 2013:

- Net sales increased 4% in 2013 as compared to 2012, primarily due to a full year sales benefit from the May 2012 Pinnacle acquisition (2%) and favorable price/mix (3%), partially offset by lower volumes (1%);

- Operating income increased 8% in 2013 as compared to 2012, largely due to increased gross profit from higher net sales ($43 million), a decrease in selling, general, and administrative expense ($21 million) that includes a $12 million benefit related to an adjustment in the estimated fair value measurement of acquisition-related contingent consideration for the Skinnygirl ready-to-serve cocktail business, the absence of business separation costs of $14 million, and a gain on the sale of brands ($13 million), partially offset by higher impairment of trade names ($34 million), and higher restructuring charges ($11 million);

- Diluted earnings per share from continuing operations were $2.24 in 2013 compared with $2.51 in 2012. The decrease was due primarily to a $57 million loss on the early extinguishment of debt and lower other income ($26 million) partially offset by higher operating income, as discussed above, and lower interest expense ($17 million):

- We reduced outstanding debt by approximately $450 million in 2013. In addition, we refinanced outstanding indebtedness through the issuance of $500 million aggregate principal amount of long-term debt; and

- We increased the indicated annual rate of our quarterly dividend by 10% to 22.5 cents per share of common stock in January 2013, beginning with the March 1, 2013 dividend payment.

Certain items had a significant impact on our financial results in 2013, 2012, and 2011. 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 2013, our financial results include the following:

- Other SG&A charges of $9 million ($6 million net of tax, or $0.03 per diluted share) associated with our internal investigation with respect to our India operation;

- Restructuring charges of $15 million ($10 million net of tax, or $0.06 per diluted share) primarily related to an organizational restructuring plan to improve efficiency and effectiveness across the organization as part of our Fueling Our Growth strategy;

- Acquisition and integration-related credits of $9 million ($6 million net of tax, or $0.04 per diluted share) mostly in connection with a $12 million benefit related to the adjustment to the fair value of acquisition-related contingent consideration described above;

Asset impairment charges of $50 million ($35 million net of tax, or $0.21 per diluted share) related to the DYC trade name (Spain);

Gain on sale of brands and related assets of $13 million ($8 million net of tax, or $0.05 per diluted share) primarily related to the sale of certain non-strategic economy brands and related assets;

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Loss on the early extinguishment of debt of $57 million ($38 million net of tax, or $0.23 per diluted share) in connection with the early extinguishment of debt related to our tender offer and subsequent redemption of senior notes;

Income tax expense benefits of approximately $8 million (or $0.05 per diluted share) that primarily include an $8 million benefit arising from the resolution of certain foreign tax return matters, a $6 million benefit related to our decision in 2013 to participate in a tax amnesty program resulting in an adjustment to uncertain tax positions, and a $4 million benefit related to the repatriation of foreign earnings, partially offset by tax expense of $10 million in connection with foreign tax law changes; and

As compared with 2012, foreign exchange translation rates and hedge results had an unfavorable $0.2 million impact on net sales and an unfavorable $7 million impact on operating income.

In 2012, our financial results include the following:

Acquisition /integration charges of $22 million ($17 million net of tax, or $0.11 per diluted share) related to the acquisition and integration of the Pinnacle vodka and Calico Jack rum brands and certain related assets (the Pinnacle assets) and Cooley Distillery plc (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 diluted 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 diluted share) related to the Larios trade name (Spain);

A benefit to other income from a nontaxable indemnification payment of $18 million (or $0.11 per diluted 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 diluted share);

Income tax expense benefits of approximately $38 million (or $0.23 per diluted share) that primarily included a $22 million net foreign tax credit related to the repatriation of current year earnings and a $17 million net benefit arising from the resolution of certain foreign and U.S. federal and state tax audit matters; 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 diluted 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 diluted share);

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

Restructuring and other related charges of $25 million ($16 million net of tax, or $0.10 per diluted 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 diluted share) related to the one-time sale of product recorded in connection with our transition to a new long-term distribution agreement in Australia;

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

A benefit to other income from a nontaxable distribution from our Maxxium investment of $10 million ($0.06 per diluted share) and nontaxable income tax indemnification payments of $27 million ($0.17 per diluted 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 diluted 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 U.S. income tax audit examinations, including an unfavorable $26 million related to Mexican tax audits and a favorable $19 million related to Germany tax audits.

Business Outlook

We believe that long-term trends are favorable for improvement in the overall spirits market globally (particularly in Australia and emerging markets), and we believe that there are opportunities to leverage further our distribution strengths in key profit markets such as the United States. In addition, we believe there are potential pricing opportunities in key categories such as premium whiskies and opportunities for growth through continued innovation, distribution or other alliances and acquisition opportunities. We expect to continue to benefit from growth in key categories such as premium whiskies and bourbon globally and our efficiency and effectiveness agenda. We could be adversely impacted by softening of emerging markets, as well as potential shifts in consumer preferences for certain spirits categories, the ongoing execution of our U.S. distributors in the three-tier system and increasing competition as customer and distributor consolidation continues in the spirits sector and as large and small competitors aggressively promote new brands. Moreover, we anticipate increased costs in 2014, and it is uncertain whether price increases or organizational changes would offset such costs increases.

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 based on branded nine liter equivalent units. 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 branded volume. The difference arises because of changes in the composition of sales between higher and lower priced brands and from price changes.

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We include financial measures (including those that are non-GAAP financial measures) in the discussion of our results of operations below. 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 acquisitions/divestures, foreign exchange, 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 net sales in the current period, including net sales attributable to acquired companies from the acquisition date, to adjusted net sales from the prior-year period. In arriving at adjusted prior-year net sales, we include the net sales of acquired companies and brands and remove the net sales of divested companies and brands 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 43% of our net sales were outside the U.S during the year ended December 31, 2013. 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.

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. Management believes these measures are useful for evaluating performance, as the impact of acquisitions/divestitures and fluctuations in exchange rates can impact the underlying year-over-year growth rates of the Company and its segments.

Consolidated Results for the 2013 Compared to 2012

Net sales

The following table presents a reconciliation of GAAP net sales growth to comparable net sales growth (non-GAAP) for 2013 as compared to 2012:

	Consolidated Net Sales Growth
Net sales growth (GAAP)	4%
Acquisitions/divestitures [(a)]	(2)%
Comparable net sales growth (Non-GAAP)	2%

(a) See Presentation Basis and Non-GAAP Measures above for information related to a description and methodology of these adjustments. Significant acquisitions and divestitures are identified and discussed below.

GAAP net sales increased $88 million, or 4%, from $2,460 million in 2012 to $2,547 million in 2013. The 4% increase in GAAP net sales in 2013 was primarily due to the May 2012 acquisition of the Pinnacle assets (2%), and an increase in comparable net sales (2%). Comparable net sales increased 2% in 2013 as compared to 2012 primarily due to favorable price/mix (3%), partially offset by lower volumes (1%). The price benefit was due predominantly to the carry-over effect of prior targeted price increases for certain brands and markets such as Maker s Mark and Jim Beam in the U.S. Favorable mix was due to the impact of innovations and premiumization within our product portfolio. The year-over-year decline in volumes was largely due to decreases in Value Creator and Local Jewels brands, but also driven by a volume decrease in Skinnygirl, Pinnacle, Courvoisier, and Teacher s. These decreases were largely offset by volume increases in Jim Beam, Maker s

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Mark, Canadian Club, and Sauza. The substantial decline in Skinnygirl is largely due to the substantial decrease of the U.S. ready-to-serve spirits category in 2013 and the decline in Teacher s Scotch is largely due to the impact of our repositioning in India. Decreased net sales in India, which was primarily due to our India investigation and repositioning of that business, negatively impacted our consolidated net sales growth by approximately one point. The comparable net sales increase of 2% was driven by net sales growth in North America and EMEA, partially offset by a decrease in APSA.

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

	2013		2012		Favorable (Unfavorable) change		
($ in millions)	**$**	**% of net sales**	**$**	**% of net sales**	**$**	**%**	**basis points**
Cost of goods sold	1,067.9	41.9%	1,023.7	41.6%	(44.2)	(4.3)%	(30)
Advertising and marketing expense	401.0	15.7%	398.7	16.2%	(2.3)	(0.6)%	50
Selling, general, and administrative expense	392.2	15.4%	412.9	16.8%	20.7	5.0%	140

Cost of goods sold

The $44 million, or 4%, increase in cost of goods sold in 2013 was primarily due to higher raw-material and other production related costs (approximately $34 million), which is net of an $8 million benefit from the recognition of a contractual incentive related to 2012 production that did not become realizable until the first quarter of 2013, a net increase from acquisitions/divestitures (approximately $29 million), primarily attributable to the acquisition of the Pinnacle assets, foreign exchange rates ($8 million), as well as higher cost associated with increased sales of premium products. Higher raw material and labor costs were largely offset by the benefit of our organizational streamlining and procurement savings initiatives (approximately $33 million).

Advertising and marketing expense

Advertising and marketing expense increased approximately $2 million in 2013. Advertising and marketing expense as a percentage of net sales was 15.7% in 2013, which is consistent with prior year levels (16.2% in 2012 and 15.6% in 2011).

Selling, general and administrative expense

The $21 million, or 5%, decrease in selling, general and administrative expense in 2013 was mostly due to lower acquisition and integration-related expenses ($30 million), which includes a $12 million benefit related to an adjustment to the fair value of acquisition-related contingent consideration, lower incentive compensation expense accruals, and lower bad debt expense, partially offset by inflation and the growth of business and support functions as well as an additional $5 million of costs in 2013 compared to 2012 related to our India investigation and repositioning of that business.

Gain on sale of brands and related assets

The $13 million gain on sale of brands and related assets primarily relates to a $12 million gain from the January 2013 sale of certain non-strategic economy brands and related assets.

Restructuring charges

During 2013, the Company approved an organizational restructuring plan to improve efficiency and effectiveness across the organization. This plan includes the elimination of certain sales, marketing, operations

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and other positions within the Company s three operating segments and corporate function. Restructuring charges of $15 million in 2013 primarily relate to the above mentioned plan and mostly consist of employee-related costs. We do not expect any additional significant charges related to the above mentioned plan.

Restructuring charges of $4 million in 2012 primarily relate to the relocation of certain U.S. finance and human resource shared services from our Deerfield, Illinois headquarters to Kentucky.

Business separation costs

Business separation costs of $14 million 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, Inc. executives in July 2012 in connection with the Separation Transactions, partially offset by a decrease in accrued liabilities for estimated costs to complete the Separation Transactions.

Asset impairment charges

In 2013, we recorded an impairment charge of $50 million to reduce the DYC trade name to an estimated fair value of $44 million. The impairment was primarily due to lower projected future revenues and profitability for this brand as compared to projected revenues and profitability estimated during the impairment test conducted during the fourth quarter of 2012. Factors that contributed to lower revenue and profitability projections included a comparison of actual results for 2013 against our 2013 outlook, continued economic challenges in the Spanish market, and the competitive outlook within the spirits category in which the trade name competes, among other factors.

In 2012, we recorded an impairment charge of $16 million to reduce the Larios trade name 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 competitive outlook within the spirits category in which the trade name competes, among other factors.

Operating income

Operating income increased $44 million, or 8%, from $574 million in 2012 to $617 million in 2013. Operating income increased due to increased gross profit ($43 million) from higher sales, which were largely driven by the acquisition of the Pinnacle assets and price/mix benefits. The increase in operating income in 2013 also benefited from lower acquisition and integration-related expenses ($29 million), which includes a $12 million benefit related to an adjustment to the fair value of acquisition-related contingent consideration, lower incentive compensation expense accruals, the absence of business separation costs of $14 million, and a $13 million gain on sale of brands and related assets in the 2013 period, partially offset by higher impairment of trade names ($34 million), higher restructuring charges in 2013 ($11 million), unfavorable foreign exchange rate changes ($7 million), and higher costs in 2013 related to our India investigation and repositioning of that business ($5 million).

Interest expense

Interest expense decreased $17 million, or 16%, from $109 million in 2012 to $92 million in 2013, primarily due to lower weighted-average interest rates on outstanding borrowings, including fair value hedge impacts, and lower debt balances. Lower weighted-average interest rates are largely related to our debt refinancing in June and July of 2013.

Loss on early extinguishment of debt

The loss on early extinguishment of debt of $57 million was incurred in connection with our repayment of an aggregate principal amount of $485 million of our outstanding notes and debentures in June and July 2013. The loss

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on early extinguishment of debt primarily consists of $42 million in premiums paid to repurchase the debt and $14 million related to a contractual redemption premium. The repayment primarily related to our 6.375% Notes due 2014 ($326 million principal amount) and 5.875% Notes due 2036 ($138 million principal amount).

Other income

Other income decreased $26 million, from $35 million in 2012 to $9 million in 2013. The change from 2012 to 2013 was primarily due to a nontaxable indemnification payment of approximately $18 million received in 2012 from Pernod Ricard related to tax matters in connection with the assets acquired from Pernod Ricard in July 2005, lower foreign currency transaction gains ($3 million, net of hedging impacts), a decrease in equity income related to our international distribution joint ventures with The Edrington Group ($3 million), and the absence of a distribution related to the wind down of our Maxxium joint venture investment that was received in the 2012 period ($2 million).

Income taxes

The effective income tax rates for 2013 and 2012 were 23.4% and 19.3%, respectively. Several significant items impacted the comparability of our effective tax rates between 2013 and 2012. The effective tax rate for 2013 was less than the U.S. federal statutory rate due to foreign income taxed at lower rates; a reduction in unrecognized tax benefits of $6 million, which was primarily due to our participation in a tax amnesty program; a second quarter election made by one of our subsidiaries under a new tax law that allowed it to increase the value of its assets resulting in a $5 million reduction to income tax expense; implementation of a tax planning strategy to utilize net operating losses for which a benefit was not previously recorded that reduced income tax expense by $4 million; and resolution of certain foreign income tax matters which resulted in a reduction to tax expense of $8 million. These favorable items were offset by $10 million of deferred income tax expense and $6 million of current income tax expense associated with Mexican and French tax law changes enacted during the fourth quarter. The effective tax rate for 2012 was less than the U.S. federal statutory rate primarily due to foreign income taxed at lower rates, the receipt of non-taxable indemnification income from Pernod Ricard, net foreign tax credits ($22 million) and tax benefits recorded in 2012 as a result of final audit settlements and the expiration of foreign jurisdiction income tax review periods ($17 million). See Note 9, *Income Taxes*, of the Notes to the Consolidated Financial Statements for additional information related to our effective tax rates in 2013 and 2012.

Segment Results for 2013 Compared to 2012

The following table sets forth net sales and operating income by operating segment for 2013 and 2012 as reported and adjusted to exclude the impact of foreign exchange translation (in millions):

				Non-GAAP Constant Currency (a)	
	2013	**2012**	**% Change Reported**	**2013 Adjusted Amount**	**% Change Adjusted**
Net Sales					
North America	$ 1,559.1	$ 1,447.5	7.7%	$ 1,558.4	7.7%
EMEA	544.5	511.1	6.5%	532.7	4.2%
APSA	443.7	501.1	(11.5)%	456.4	(8.9)%
Segment net sales	2,547.3	2,459.7	3.6%	2,547.5	3.6%
Foreign exchange				(0.2)	
Net sales	$ 2,547.3	$ 2,459.7	3.6%	$ 2,547.3	3.6%

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	2013	2012	% Change Reported	Non-GAAP Constant Currency (a) 2013 Adjusted Amount	% Change Adjusted
Operating Income					
North America	$ 448.7	$ 392.3	14.4%	$ 451.1	15.0%
EMEA	132.5	123.0	7.7%	129.9	5.6%
APSA	86.4	114.2	(24.3)%	93.7	(18.0)%
Segment operating income	667.6	629.5	6.1%	674.7	7.2%
Deduct:					
Foreign exchange				7.1	
Gain on sale of brands and related assets (Note 3)	(13.2)			(13.2)	
Business separation costs (Note 6)		13.8			
Restructuring charges (Note 7)	15.3	4.3		15.3	
Other (credits) charges (Note 7)	(1.1)	22.3		(1.1)	
Asset impairment (Note 12)	49.5	15.6		49.5	
Operating income	$ 617.1	$ 573.5	7.6%	$ 617.1	7.6%

(a) See Presentation Basis and Non-GAAP Measures above for information related to the rationale for presenting this non-GAAP information. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

Below is a reconciliation of GAAP segment net sales growth to comparable segment net sales growth for 2013 as compared to 2012.

	North America	EMEA	APSA
Net sales growth (GAAP)	8%	7%	(11)%
Acquisitions/divestitures [(a)(b)]	(3)%	1%	
Foreign exchange rates [(a)]		(2)%	2%
Comparable net sales growth (Non-GAAP)	5%	6%	(9)%

(a) See Presentation Basis and Non-GAAP Measures above for information related to a description and methodology of these adjustments.
(b) Significant acquisitions and divestitures are identified and discussed below.

North America

North America net sales increased 8% on both a GAAP basis and constant currency basis in 2013 as compared to 2012. Adjusting constant currency net sales for the impact of acquisitions/divestitures, North America s comparable net sales increased 5% in 2013. The acquisition/divestiture impact (3%) was primarily due to the May 2012 acquisition of the Pinnacle assets. The 5% comparable net sales increase was primarily due to favorable price/mix (6%), partially offset by a decline in volumes (1%). The price/mix benefit primarily related to Maker s Mark, Jim Beam, and Pinnacle, which includes the impacts of premium-priced innovation and faster growth of our premium brands on mix. Innovations that benefited the current year include Jim Beam Honey, Jacob s Ghost, Jim Beam Maple, Sauza Sparkling Margarita, and Hornitos Lime Shot. The 1% volume decrease was predominantly due to Skinnygirl, which declined largely due to a substantial decrease of the U.S. ready-to-serve category in 2013, as well as declines in Local Jewels and Value Creators brands. In addition, Pinnacle volume was also down compared to the year-ago period, reflecting higher distributor inventory last year related to the transition to Beam s network. These volume decreases were largely offset by volume increases in

Jim Beam, Sauza, and Maker s Mark. Geographically, comparable net sales growth was due to increased sales in the U.S., Canada, and Mexico.

North America operating income increased $56 million, or 14% on a GAAP basis and 15% on a constant currency basis, in 2013 as compared to 2012. Constant currency operating income increased principally from increased gross profit from higher net sales, benefiting from favorable mix, operating leverage, and cost containment, partially offset by higher advertising and marketing expense.

Europe/Middle East/Africa

EMEA net sales increased 7% on a GAAP basis and 4% on a constant currency basis in 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. Further adjusting constant currency net sales for the impact of divestitures, EMEA s comparable net sales increased 6% in 2013. The divestiture impact relates to the 2012 termination of a third-party distribution agreement in connection with the 2012 acquisition of the Cooley business. The 6% comparable net sales increase was mostly due to favorable price/mix (4%), benefiting from the faster growth of our premium brands, including Jim Beam, Courvoisier, and Laphroaig. Geographically, comparable net sales growth was primarily due to increased sales in Germany, the U.K., Russia, and Central Europe, partially offset by decreases in Spain reflecting challenging market conditions.

EMEA operating income increased $10 million, or 8%, on a GAAP basis and 6% on a constant currency basis in 2013 as compared to 2012. The positive foreign currency exchange impact on our GAAP results was primarily due to the weighted-average impact of a stronger Euro relative to the U.S. dollar. The increase in constant currency operating income was mostly due to net sales growth, operating leverage, and cost containment, partially offset by higher advertising and marketing expense.

Asia-Pacific/South America

APSA net sales decreased 11% on a GAAP basis and 9% on a comparable basis in 2013 as compared to 2012. The difference between GAAP and comparable net sales is due to the negative foreign currency exchange impact on our GAAP results from sales in Australia, Brazil, and India. The comparable net sales decrease was due to the unfavorable impact of price/mix (8%) and lower volumes (1%). The comparable net sales decrease was largely driven by challenging market conditions in Australia and emerging markets, including China and Southeast Asia, which particularly impacted the sales of Jim Beam ready-to-drink products and Courvoisier. In addition, comparable net sales were adversely impacted three percentage points in 2013 by the decline in Teacher s resulting from the repositioning of our business in India.

APSA operating income decreased $28 million, or 24% on a GAAP basis and 18% on a constant currency basis in 2013 as compared with 2012. The difference between GAAP and constant currency operating income is primarily due to the negative foreign exchange impact related to Australia and Brazil. The decrease in constant currency operating income was primarily due to decreased net sales, as described above, unfavorable mix and negative operating leverage, partially offset by decreased advertising and marketing expense. Refer to Note 18, *Commitments and Contingencies*, of the Notes to the Consolidated Financial Statements included in this report for additional information related to our internal investigation and implementation of remedial measures in India.

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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)]	2%
Acquisitions/divestitures [(a)]	(4)%
Australia distribution one-time sale [(a)]	2%
Comparable net sales growth (Non-GAAP)	7%

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

GAAP net sales increased $161 million, or 7%, from $2,299 million in 2011 to $2,460 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 (2%), which is discussed in segment results of operations below. The increase in comparable net sales was primarily due to favorable price/mix (4%) and the impact of higher volumes (3%) 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 7% was driven by net sales growth in all three of our segments as described below.

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	1,023.7	41.6%	985.6	42.9%	(38.1)	(3.9)%	130
Advertising and marketing expense	398.7	16.2%	358.7	15.6%	(40.0)	(11.2)%	(60)
Selling, general, and administrative expense	412.9	16.8%	430.0	18.7%	17.1	4.0%	190

Cost of goods sold

The $38 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. Gross profit percentage margin increased approximately 130 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 15.6% 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 22, *Segment Information*, of the Notes to the Consolidated Financial Statements included in this report for more information on estimating standalone corporate cost structure.

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 included our planned move of the 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.

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.

Asset impairment charges

In 2012, we recorded an impairment charge of $16 million to reduce the Larios trade name 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 competitive outlook within the spirits category in which the trade name competes, among other factors.

In 2011, we recorded a non-cash impairment charge of $31 million to reduce the DYC and Larios trade names 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.

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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 $188 million, or 49%, from $386 million in 2011 to $574 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 ($123 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 19.3% and 25.0%, 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) and tax benefits recorded in 2012 as a result of final audit settlements and the expiration of foreign jurisdiction income tax review periods ($17 million). 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,* of the Notes to the Consolidated Financial Statements*,* 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.

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Loss (income) from discontinued operations, net of tax

Loss from discontinued operations, net of tax, of $18 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. Income from discontinued operations, net of tax, of $787 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,* of the Notes to the Consolidated Financial Statements, for additional information.

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):

Net Sales	**2012**	**2011**	**% Change Reported**	**Non-GAAP Constant Currency [a] 2012 Adjusted Amount**	**% Change Adjusted**
North America	$ 1,447.5	$ 1,265.7	14.4%	$ 1,452.8	14.8%
EMEA	511.1	502.7	1.7%	539.5	7.3%
APSA	501.1	484.3	3.5%	499.6	3.2%
Segment net sales	2,459.7	2,252.7	9.2%	2,491.9	10.6%
Australia distribution one-time sale		46.3			n/m
Foreign exchange				(32.2)	
Net sales	$ 2,459.7	$ 2,299.0	7.0%	$ 2,459.7	7.0%

Operating Income	**2012**	**2011**	**% Change Reported**	**Non-GAAP Constant Currency [a] 2012 Adjusted Amount**	**% Change Adjusted**
North America	$ 392.3	$ 356.1	10.2%	$ 388.7	9.2%
EMEA	123.0	117.7	4.5%	128.3	9.0%
APSA	114.2	88.5	29.0%	103.6	17.1%
Segment operating income	629.5	562.3	12.0%	620.6	10.4%
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 22)		36.0			
Operating income	$ 573.5	$ 385.6	48.7%	$ 573.5	48.7%

(a) See Presentation Basis and Non-GAAP Measures above for information related to the rationale for presenting this non-GAAP information. The foreign exchange impact is calculated by translating current year results at prior year exchange rates and excluding hedge impacts.

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. The following table is a reconciliation of GAAP segment net sales growth to comparable segment net sales growth (non-GAAP) for 2012 as compared to the 2011.

	North America	EMEA	APSA
Net sales growth (GAAP)	14%	2%	3%
Foreign exchange rates [(a)]		5%	
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

North America net sales increased 14% on a GAAP basis and 15% on a constancy currency basis in 2012 as compared to 2011. 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.

North America operating income increased $36 million, or 10%, on a GAAP basis and 9% on a constant currency basis in 2012 as compared to 2011. 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

EMEA net sales increased 2% on a GAAP basis and 7% on a constancy currency basis in 2012 as compared to 2011. 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.

EMEA operating income increased $5 million, or 5%, on a GAAP basis and 9% on a constant currency basis in 2012 as compared to 2011. 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

APSA net sales increased 3% on both a GAAP basis and constant currency basis as compared to 2011. 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.

APSA operating income increased $26 million, or 29%, on a GAAP basis and 17% on a constant currency basis in 2012 as compared to 2011. The difference between GAAP and constant currency operating income growth rates (12%) 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.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capitalization

The ratio of total debt to total capital decreased to 28.6% at December 31, 2013 from 35.2% at December 31, 2012, primarily due to lower outstanding debt (discussed below) and higher equity resulting from 2013 net income and proceeds from stock option exercises.

In December 2013, we repaid maturing notes of $181 million using cash on hand.

In June 2013, we issued $250 million in aggregate principal amount of 1.750% Notes due 2018 (the 2018 Notes) and $250 million in aggregate principal amount of 3.250% Notes due 2023 (the 2023 Notes and together with the 2018 Notes, the Notes). Net proceeds were used to repurchase and redeem outstanding debt in June and July of 2013 (as discussed below).

The 2018 Notes will mature on June 15, 2018 and bear interest at a fixed rate of 1.750% per annum. The 2023 Notes will mature on June 15, 2023 and bear interest at a fixed rate of 3.250% per annum. Interest is payable on the Notes from June 15, 2013 semi-annually, in arrears, on June 15 and December 15 of each year beginning December 15, 2013. 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 July 2013, we used a portion of the net proceeds from the issuance of the Notes and cash on hand to redeem the remaining outstanding principal amount ($248 million) of the 6.375% Notes due 2014. We recorded a loss on early extinguishment of debt of approximately $14 million in the third quarter of 2013, primarily related to a contractual redemption premium.

In June 2013, we used a portion of the net proceeds from the issuance of the Notes and cash on hand to repay an aggregate principal amount of $237 million of our outstanding debentures in accordance with a tender offer announced in May 2013, resulting in a loss on early extinguishment of debt of $43 million, which primarily consisted of $42 million in premiums paid to repay the debt. The repayments primarily related to our 6.375% Notes due 2014 ($78 million principal amount) and 5.875% Notes due 2036 ($138 million principal amount).

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In January 2013, we repaid at maturity the remaining principal amount of 219 million ($297 million) on our 4% notes.

As of December 31, 2013, we had total cash and cash equivalents of $277 million, of which $144 million was held 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.

- If we require more 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 (of which $750 million was available as of December 31, 2013), is a viable alternative to repatriation of indefinitely reinvested foreign earnings that would be subject to additional U.S. tax expense. Repatriating non-U.S. cash balances or issuing debt or equity to raise capital 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, committed revolving credit facility and other sources of liquidity will be sufficient to fund current operations, service outstanding indebtedness and pay dividends.

Additional Matters Affecting Liquidity

Merger Agreement

The Merger Agreement, described in Part I Item 1. Business Merger Agreement, provides for certain termination rights for both the Company and Suntory Holdings. The Company is obligated to pay Suntory Holdings a $425 million termination fee in certain circumstances, including, without limitation (a) if the Board of Directors changes its recommendation in the absence of a Competing Proposal (as defined in the Merger Agreement) after the Board of Directors has determined in good faith, after consultation with the Company s outside financial advisors and outside legal counsel, that the failure of the Board of Directors to effect such a change in recommendation would be reasonably likely to be inconsistent with its fiduciary duties under applicable law and Suntory Holdings terminates the Merger Agreement or (b) if the Company terminates the Merger Agreement after February 26, 2014 in order to enter into a definitive agreement with a third party with respect to a Superior Proposal (as defined in the Merger Agreement). However, if the Company terminates the Merger Agreement prior to 5:00 p.m. U.S. Central time on February 26, 2014 and enters into a definitive agreement with a third party with respect to a Superior Proposal, the termination fee payable to Suntory Holdings would be $275 million.

Share Repurchase Program

Under a share repurchase plan authorized by our Board of Directors, we may repurchase up to 3 million shares of the Company s common stock, par value $3.125 per share either in the open market or in other privately negotiated transactions. The share repurchase plan has no expiration date and we have not repurchased any shares under this plan to date. Under the Merger Agreement described in Part I Item 1. Business Merger Agreement, we are prohibited from repurchasing any of the Company s outstanding common stock.

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Cash Flows

Below is a summary of cash flows for the years ended December 31, 2013, 2012, and 2011 (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.

	2013	2012	2011
Net cash provided by operating activities	$ 423.8	$ 378.2	$ 454.5
Net cash (used in) provided by investing activities	(42.3)	(802.1)	918.2
Net cash (used in) provided by financing activities	(468.8)	564.2	(2,002.5)
Effect of foreign exchange rate changes on cash	(1.2)	7.1	(16.6)
Change in cash included in assets of discontinued operations			53.2
Net (decrease) increase in cash and cash equivalents	$ (88.5)	$ 147.4	$ (593.2)

Operating Activities

Net cash provided by operating activities was $424 million in 2013 compared to $378 million in 2012. The increase in cash was due to the cash impact of increased sales, largely due to the acquisition of the Pinnacle assets, and lower cash used related to discontinued operations (discussed below).

Operating cash flows in 2013 included approximately $17 million of cash outflows related to discontinued operations and liabilities related to the Separation Transactions completed in 2011, primarily consisting of indemnity payments related to tax matters, as compared to approximately $85 million of discontinued operations-related payments, primarily consisting of incentive compensation, severance and pension benefits for former Fortune Brands executives and settlement of a legal matter in 2012.

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.

Investing Activities

Net cash used in investing activities was $42 million in 2013 as compared to $802 million in 2012. The net cash used in investing activities in 2013 was primarily due to capital expenditures during the period ($129 million, mostly related to the purchase of new oak barrels required to produce bourbon, warehouse capacity expansion at Maker s Mark, and capacity expansion to support future growth in bourbon, scotch, and cognac), partially offset by proceeds received for the sale of certain non-strategic economy brands and related assets in January 2013 ($63 million) and the sale of property, plant, and equipment ($25 million). The net cash used in investing activities in 2012 predominately related to the acquisition of the Cooley business in January 2012 ($74 million) and the Pinnacle assets in May 2012 ($608 million) and capital expenditures during the period ($137 million) discussed

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below, partially offset by $6 million in cash received from Home & Security under agreements related to the Spin-Off.

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 described above 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. We also transferred $116 million of cash to Home & Security in 2011 in connection with the Spin-Off.

Financing Activities

Net cash used in financing activities was $469 million in 2013 as compared to $564 million of net cash provided by financing activities in 2012. As discussed above, we repaid long-term debt during 2013 ($1 billion), which was partially offset by the issuance of long-term debt of $496 million in aggregate principal (net of discounts) during 2013. In 2012, we issued $606 million of long-term debt in aggregate principal (net of discounts) largely to finance the acquisition of the Pinnacle assets in May 2012. We also received more cash in 2013 as a result of increased option exercise activity ($64 million).

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 2012 from the issuance of long-term debt to fund the acquisition of the Pinnacle assets. 2011 included cash outflows of $2.4 billion 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.

Dividends

A summary of 2013 dividend activity for the Company s common stock is shown below:

Dividend Amount	Declaration Date	Record Date	Payment Date
$0.225 per share	January 25, 2013	February 6, 2013	March 1, 2013
$0.225 per share	April 24, 2013	May 8, 2013	June 3, 2013
$0.225 per share	July 31, 2013	August 14, 2013	September 3, 2013
$0.225 per share	September 19, 2013	November 6, 2013	December 2, 2013

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. Under the Merger Agreement described in Part I Item 1. Business Merger Agreement, we are prohibited from paying any dividend or other distribution on our common stock other than quarterly dividends to holders of common shares in a per share amount no greater than the quarterly dividend declared and paid by the Company during the fiscal quarter ended December 31, 2013 ($0.225 per share), with record and payment dates in accordance with the Company s customary dividend schedule.

Customer Credit Risk

We routinely grant unsecured credit to customers in the normal course of business. Accounts receivable were $427 million and $453 million as of December 31, 2013 and 2012, 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 $12 million and $14 million as of December 31, 2013 and 2012, 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, 2013 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 are not required to make any contributions in 2014 to comply with U.S. minimum funding requirements based on assumptions as of December 31, 2013. 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, 2013, the fair value of our pension plan assets was $377 million, representing 84% 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 $39 million, of which our guarantee exposure was $26 million based on facilities utilized at December 31, 2013. We have not recorded a liability for these guarantees.

As part of the sale of the Golf business we agreed to indemnify the buyer for certain obligations (primarily taxes) that will be paid by the buyer, but that relate to periods during which we owned the Golf business. Our estimate of our liabilities under these indemnification obligations is approximately $33 million as of December 31, 2013; approximately $26 million is recorded within Other current liabilities and approximately $7 million is recorded within Other non-current liabilities on our consolidated balance sheet. Our actual obligation for tax-related indemnities which have been accrued 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 penalties if applicable).

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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, 2013 (in millions).

	Payments Due by Period as of December 31, 2013				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations [a]					
Short-term borrowings	$ 12.8	$ 12.8	$	$	$
Long-term debt[b]	2,028.5		413.8	550.0	1,064.7
Operating leases	82.1	15.4	22.2	19.4	25.1
Interest payments on long-term debt	773.6	85.1	159.0	116.0	413.5
Purchase obligations[c]	292.8	104.1	104.6	30.0	54.1
Pension and postretirement contributions [d]	8.4	8.4			
Total	$ 3,198.2	$ 225.8	$ 699.6	$ 715.4	$ 1,557.4

(a) Total contractual obligations do not include income taxes payable or long-term income taxes payable for uncertain tax positions. We are unable to reasonably estimate the timing of future payments related to uncertain tax positions. Refer to Note 9, *Income Taxes*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for more information on uncertain tax positions.

(b) Includes principal only.

(c) Purchase obligations include: contracts for raw material and finished goods purchases; advertising, selling and administrative services; and capital expenditures.

(d) Minimum required pension and postretirement contributions cannot be determined beyond 2014.

Recently Issued Accounting Standards

The information required by this Item is provided in Note 1, *Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K and is hereby incorporated herein by reference.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1, *Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K. The Consolidated Financial Statements are prepared in conformity with GAAP. Preparation of the financial statements requires us to make judgments, estimates, and assumptions that affect the amounts of assets and liabilities in the financial statements and revenues and expenses during the reporting periods (and related disclosures). We believe the policies discussed below are the Company s critical accounting policies, as they include the more significant, subjective, and complex judgments and estimates made when preparing our consolidated financial statements.

Customer Program Costs

We provide a variety of sales incentives to promote sales and to maintain competitive pricing. Incentive programs that are primarily intended for our distributors to maintain competitive pricing are recorded as a reduction in net sales. Additional types of incentive programs that we utilize include:

Volume-Based Incentives. These incentives typically involve rebates or refunds of a specified amount of cash only if the distributor reaches a specified level of sales. Net sales are reduced by the estimated amount of volume-based incentives expected to be earned by our customers. Estimates are based on expectations of distributors achieving contractual volume targets and the payouts associated with those targets.

Cooperative Advertising. Under these arrangements, we reimburse our distributors for a portion of the costs incurred by the distributors to advertise and promote certain of our products. We generally recognize the cost of cooperative advertising programs in a manner consistent with our advertising cost policy, which is described in Note 1, *Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report. These incentives, which are typically used in certain non-U.S. markets, are typically classified as advertising and marketing expense.

Income Taxes

We establish deferred tax liabilities or assets for temporary differences between financial and tax reporting bases and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance that reduces deferred tax assets when it is more likely than not that such assets will not be realized. We do not provide deferred income taxes on undistributed earnings of foreign subsidiaries that we expect to indefinitely reinvest.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. We do not record a tax benefit for tax positions that are currently estimated to have a less than 50% likelihood of being sustained. For tax positions that have met the recognition threshold in the first step, we perform a second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to change the recognition and measurement estimates with regard to individual tax positions. We record changes in recognition and measurement estimates in our results of operations and financial position in the period in which such changes occur.

Inventories

We record inventory on the first-in, first-out (FIFO) method. In accordance with generally recognized trade practice, maturing spirits inventories are classified as current assets, although the majority of these inventories ordinarily will not be sold within one year, due to the duration of aging processes. Maturing spirits inventory includes costs of production such as warehousing and insurance. Inventory provisions are recorded to reduce inventory to the lower of cost or market value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory turns, product spoilage, and specific identification of items, such as product discontinuance, material changes, or regulatory-related changes.

Long-lived Assets

We test a long-lived asset (including amortizable identifiable intangible assets) or asset group for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of the long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

Goodwill

Goodwill is not amortized but is tested for impairment at least annually in the fourth quarter and more frequently if circumstances warrant. Our reporting units are our operating segments.

We initially perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. As a result of our qualitative assessment completed as of December 31, 2013 and 2012, we concluded our goodwill was not impaired.

If our qualitative test indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform an additional two-step impairment test: in step one, the carrying value of the reporting unit is compared with its fair value; in step two, which is applied when the carrying value is more than its fair value, the amount of goodwill impairment, if any, is derived by deducting the fair value of the reporting unit s assets and liabilities from the fair value of the reporting unit in total, and comparing that amount with the carrying amount of goodwill. Based on our estimates of fair value for each of our reporting units as of December 31, 2013, we believe there are no reporting units for which a decline in fair value of 10% could trigger an impairment of goodwill.

Intangible Assets

We amortize purchased intangible assets other than goodwill over their useful lives unless those lives are determined to be indefinite. The determination of the useful life of an intangible asset other than goodwill is based on factors including historical and projected trade name performance, consumer name recognition, geographic market presence, market share, and plans for ongoing trade name support and promotion. Certain of our trade names have been assigned an indefinite life as we currently anticipate that these trade names will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at least annually to determine whether the indefinite useful life is appropriate. We review indefinite-lived intangible assets for impairment annually in the fourth quarter, and whenever market or business events indicate there may be a potential impairment of that intangible. We compare the carrying value of the indefinite-lived trade name to its fair value. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. We measure fair value using the standard relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party over the estimated remaining useful life.

In connection with our annual impairment tests of indefinite-lived trade names, we recorded the following impairments: in 2013, we recorded a $50 million impairment charge related to the DYC trade name; in 2012, we recorded a $16 million impairment charge related to the Larios trade name; and in 2011, we recorded a $31 million impairment related to the DYC and Larios trade names (refer to 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). As of December 31, 2013 (after the impairment charge), the DYC trade name had a carrying value of $44 million. We also reassessed the remaining life of the DYC trade name and concluded it was no longer indefinite. At December 31, 2013, we reclassified the DYC trade name to a definite-lived asset with an estimated remaining life of 30 years, based on our expectations of the brand s contributions to our future cash flows considering factors such as current long-term market outlook, plans for ongoing trade name support and promotion, strength of the brand, strength of the brand category in which the brand competes, among other factors. At December 31, 2013, we had two indefinite-lived trade names (Pinnacle and Sauza) with an aggregate carrying value of approximately $692 million, for which a 10% reduction in fair value would trigger an impairment. The significant estimates and assumptions that influence the fair value of our trade names include the expected branded product sales included in our operating plans, longer-term market growth rates in particular spirits categories and geographies, expected profit margins on products sold using the brands, terminal revenue growth rates, and the weighted average cost of capital.

Pension and Postretirement Benefit Plans

We provide a range of benefits to our employees and retired employees, including pension, postretirement, post-employment, and health care benefits. We use various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates, and health care cost trend rates to recognize expense and obligations associated with these plans. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. We use a market-related value method of plan assets to calculate pension costs, recognizing each year s asset gains or losses over a five-year period. The expected return on plan assets is determined based on the nature of the plans investments and our expectations for long-term rates of return. Compensation increases reflect expected future compensation trends. The discount rate used to measure obligations is based on a spot-rate yield curve that matches projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The bond portfolio used for the selection of the discount rate is generally comprised of high quality bonds specific to the country of the plan.

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses, if outside a specified corridor, are amortized over future periods and, therefore, generally affect our recognized expense in future periods. Amounts are recognized as a component of net expense over approximately 26 years and 12 years for the U.S. plans and non-U.S. plans, respectively. The amortization period for actuarial losses is much longer for the U.S. plans as compared to the non-U.S. plans because for the U.S. plans we amortize losses over the estimated life of the participant rather than the service period because benefits under most of our U.S. plans have been frozen. We believe that the assumptions utilized in recording our obligations under our plans are reasonable based on our experience; however, differences in actual experience or changes in the assumptions may materially affect our business, results of operations, cash flows and financial condition.

The unfunded status of our U.S. pension plans decreased approximately $46 million in 2013 primarily due to plan asset returns and actuarial gains, which were partly attributable to an increase in the assumed discount rate, partially offset by interest cost. See Note 17, *Pension and Other Postretirement Benefits*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information related to plan assets, obligations, and assumptions.

A hypothetical 25 basis point increase/decrease to the assumed weighted-average discount rate used in the actuarial valuation of our pension plan obligation at December 31, 2013 would decrease/increase estimated pre-tax annual 2014 expense by approximately $0.5 million. A hypothetical 25 basis point increase/decrease to the assumed weighted-average long-term rate of return on plan assets used in the actuarial valuation of our pension plan obligation at December 31, 2013 would decrease/increase estimated pre-tax annual 2014 expense by approximately $1.0 million.

Refer to Note 17, *Pension and Other Postretirement Benefits*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 of this report for more information on our pension plans and the impact of a 1% increase/decrease in the health care cost trend rate on expense related to our other postretirement benefit plan obligation and expense.

Litigation Contingencies

We are subject to risks related to threatened or pending litigation and are routinely defendants in lawsuits associated with the normal conduct of business. Liabilities and costs associated with litigation related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation related losses when a loss is probable and we can reasonably estimate the amount of the loss. We evaluate the measurement of recorded liabilities each reporting period based on the current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation related loss contingencies may differ materially from the estimated liability recorded at a particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur.

See Note 18, *Commitments and Contingencies*, of the Notes to the Consolidated Financial Statements in Part II, Item 8 to this Form 10-K.

Environmental Matters

We are subject to federal and state laws and regulations relating to the protection of the environment, including regulations related to remediating hazardous wastes. At December 31, 2013 and 2012, our estimated liabilities related to environmental matters were $16 million and $15 million, respectively, and are included in non-current liabilities on our consolidated balance sheet. Our liabilities for remediation obligations are based on undiscounted future cash flows. During the fourth quarter of 2012, we increased our estimated liability to reflect a revised remediation plan for a site related to a discontinued operation. The revision to the remediation plan was made to increase the certainty of completing the required remediation. The expense associated with the increase in our estimated liability was recorded to (Loss) income from discontinued operations, net of tax on our consolidated statement of income.

It is not possible to quantify with certainty the potential impact of actions relating to environmental matters, particularly remediation and other compliance efforts that we may undertake in the future, due to the status of laws, regulations, technology and information related to individual sites and other uncertainties. We believe that the cost of complying with the present environmental protection laws will not have a material adverse effect on our results of operations, cash flows, or financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Market Risk

We are exposed to various market risks, including changes in interest rates, foreign currency exchange rates, and commodity prices. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and commodity prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We enter into financial instruments to manage and reduce the impact of changes in interest rates and foreign currency exchange rates. We may also enter into financial instruments to manage and reduce the impact of changes in commodity prices. The counterparties are major financial institutions.

Interest Rate Risk

We may, from time to time, enter into interest rate swap agreements to manage our exposure to interest rate changes. Swap agreements involve the exchange of fixed and variable interest rate payments without exchanging the notional principal amount. At December 31, 2013, the aggregate notional amount of our outstanding interest rate swaps was $600 million. These swap agreements hedge changes in the fair value of a portion of our fixed-rate debt that result from changes in interest rates. Our counterparty pays us a fixed interest rate equal to the coupon on the debt and we pay the counterparty a floating interest rate based on U.S. LIBOR plus a fixed spread. The swap agreements are designated as fair value hedges.

The fair market value of long-term fixed interest rate debt is impacted by interest rate risk and credit risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of our total long-term debt (including current portion) at December 31, 2013 and 2012 was approximately $2,099 million and $2,707 million, respectively. The fair value is determined from quoted market prices, where available, and from investment bankers with respect to interest rates considering credit ratings and the remaining terms to maturity. A hypothetical 10% increase from prevailing interest rates would have resulted in a decrease in fair value of our fixed interest rate debt by $36 million and $39 million at December 31, 2013 and 2012, respectively. This hypothetical decrease in the fair value of our fixed rate debt at December 31, 2013 would be partially offset by an increase in the fair value of our interest rate swap obligation discussed above.

We do not have significant variable rate borrowings at December 31, 2013. A hypothetical 100 basis point change in interest rates affecting our interest rate swaps would impact pre-tax interest expense by $6 million at December 31, 2013.

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Foreign Exchange Rate Risk

We enter into forward foreign exchange contracts principally to hedge currency fluctuations in transactions denominated in foreign currencies, thereby limiting our risk that would otherwise result from changes in exchange rates. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions. We periodically enter into forward foreign exchange contracts to hedge a portion of our net investments in foreign subsidiaries. The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

We are most sensitive to fluctuations in the exchange rates between some of the major foreign currencies in which we operate (including the Australian dollar, Brazilian real, British pound sterling, Euro, Canadian dollar, Indian rupee, Mexican peso, and Singaporean dollar) and the U.S. dollar. As part of our risk management procedure, we use a value-at-risk (VAR) sensitivity analysis model to estimate the maximum potential economic loss from adverse changes in foreign exchange rates over a one-day period given a 95% confidence level. The VAR model uses historical foreign exchange rates to estimate the volatility and correlation of these rates in future periods. The estimated maximum one-day loss from the Company s foreign currency exchange contracts using the VAR model was $4.9 million and $2.5 million at December 31, 2013 and 2012, respectively. The 95% confidence interval signifies our degree of confidence that actual losses under foreign exchange contracts would not exceed the estimated losses. The amounts disregard the possibility that foreign currency exchange rates could move in our favor. The VAR model assumes that all movements in the foreign exchange rates will be adverse. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets. The VAR model is a risk analysis tool and should not be construed as an endorsement of the VAR model or the accuracy of the related assumptions.

Commodity Price Risk

We are subject to commodity price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. From time to time, we may use derivative contracts to manage our exposure to commodity price volatility.

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Item 8. Financial Statements and Supplementary Data.

BEAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	For the years ended December 31,		
(In millions, except per share amounts)	**2013**	**2012**	**2011**
Sales	$ 3,148.4	$ 3,063.9	$ 2,859.6
Less: Excise taxes	(601.1)	(604.2)	(560.6)
Net sales	2,547.3	2,459.7	2,299.0
Cost of goods sold	1,067.9	1,023.7	985.6
Gross profit	1,479.4	1,436.0	1,313.4
Advertising and marketing expense	401.0	398.7	358.7
Selling, general and administrative expense	392.2	412.9	430.0
Amortization of intangible assets	17.5	17.2	16.3
Gain on sale of brands and related assets	(13.2)		
Restructuring charges	15.3	4.3	7.7
Business separation costs		13.8	83.8
Asset impairment charges	49.5	15.6	31.3
Operating income	617.1	573.5	385.6
Interest expense	91.6	109.0	117.4
Loss on early extinguishment of debt	56.9		149.2
Other income	(8.8)	(35.1)	(40.4)
Income from continuing operations before income taxes	477.4	499.6	159.4
Income taxes	111.9	96.2	39.8
Income from continuing operations Beam Inc.	365.5	403.4	119.6
(Loss) income from discontinued operations, net of tax	(3.0)	(18.2)	787.2
Net income	$ 362.5	$ 385.2	$ 906.8
Less: Noncontrolling interests related to discontinued operations			4.1
Net income attributable to Beam Inc.	$ 362.5	$ 385.2	$ 902.7
Basic earnings (loss) per common share			
Continuing operations	$ 2.26	$ 2.55	$ 0.77
Discontinued operations	(0.02)	(0.12)	5.06
Net income	$ 2.24	$ 2.43	$ 5.83
Diluted earnings (loss) per common share			
Continuing operations	$ 2.24	$ 2.51	$ 0.76
Discontinued operations	(0.02)	(0.11)	4.96
Net income	$ 2.22	$ 2.40	$ 5.72
Cash dividends per share paid on common stock	$ 0.90	$ 0.82	$ 0.76
Weighted-average common shares outstanding basic	162.1	158.3	154.6
Weighted-average common shares outstanding diluted	163.4	160.8	157.8

See Notes to Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions)	For the years ended December 31, 2013	2012	2011
Net income	$ 362.5	$ 385.2	$ 906.8
Other comprehensive income (loss):			
Foreign currency translation adjustments			
Foreign currency translation gains (losses)	6.0	122.0	(189.7)
Reclassification adjustments included in earnings			(39.6)
Tax benefit		2.4	3.8
Foreign currency translation adjustments, net	6.0	124.4	(225.5)
Derivative instruments			
Derivative instrument gains (losses)	7.8	(3.4)	(12.4)
Reclassification adjustments included in earnings	(8.5)	3.4	21.2
Tax benefit (expense)	0.2	(0.2)	(2.1)
Derivative instruments, net	(0.5)	(0.2)	6.7
Pension and other postretirement benefit adjustments			
Current year actuarial gains (losses)	47.7	(28.2)	(110.9)
Reclassification adjustments included in earnings	6.8	17.1	73.9
Tax (expense) benefit	(20.8)	5.0	15.9
Pension and other postretirement benefit adjustments, net	33.7	(6.1)	(21.1)
Total other comprehensive income (loss)	39.2	118.1	(239.9)
Comprehensive income	401.7	503.3	666.9
Less: Comprehensive income attributable to noncontrolling interests			4.1
Comprehensive income attributable to Beam Inc.	$ 401.7	$ 503.3	$ 662.8

See Notes to Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In millions, except per share amounts)	December 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 277.2	$ 365.7
Accounts receivable from customers	403.8	411.0
Accounts receivable from related parties	23.2	42.0
Inventories	1,843.3	1,763.0
Other current assets	342.6	320.9
Total current assets	2,890.1	2,902.6
Property, plant and equipment	815.7	787.9
Goodwill	2,557.8	2,571.0
Other intangible assets	2,224.4	2,308.1
Investments in affiliates	57.3	51.5
Other non-current assets	39.4	55.0
Total assets	$ 8,584.7	$ 8,676.1
Liabilities		
Current liabilities		
Notes payable and current portion of long-term debt	$ 12.8	$ 480.1
Accounts payable to vendors	199.8	213.6
Accounts payable to related parties	41.9	50.4
Other current liabilities	452.1	506.6
Total current liabilities	706.6	1,250.7
Long-term debt	2,024.5	2,024.9
Deferred income taxes	526.7	453.0
Accrued pension and postretirement benefits	92.1	142.8
Other non-current liabilities	160.7	195.5
Total liabilities	$ 3,510.6	$ 4,066.9
Equity		
Beam Inc. stockholders equity		
Common stock, par value $3.125 per share (750.0 shares authorized; 234.9 shares issued; 163.6 shares outstanding in 2013 and 160.1 shares outstanding in 2012)	734.0	734.0
Paid-in capital	946.2	873.7
Accumulated other comprehensive loss	(146.8)	(186.0)
Retained earnings	6,352.6	6,136.8
Treasury stock, at cost	(2,811.9)	(2,949.3)
Total equity	5,074.1	4,609.2
Total liabilities and equity	$ 8,584.7	$ 8,676.1

See Notes to Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31,		
(In millions)	**2013**	**2012**	**2011**
Operating activities			
Net income	$ 362.5	$ 385.2	$ 906.8
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	110.9	101.9	171.8
Amortization	10.1	8.6	27.6
Stock-based compensation	20.0	20.3	52.1
Deferred income taxes	47.2	69.0	(47.5)
Loss on early extinguishment of debt	56.9		149.2
Gain on the sale of assets	(24.0)		(686.6)
Gain on distribution from former joint venture			(10.2)
Asset impairment charges	49.5	15.6	31.3
Pension settlement	1.1		
Changes in assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	11.6	(33.6)	(77.1)
Inventories	(87.4)	(101.3)	(71.4)
Accounts payable	(15.4)	33.6	(14.1)
Other assets	21.8	(8.6)	13.9
Accrued expenses and other liabilities	(141.0)	(112.5)	8.7
Net cash provided by operating activities	423.8	378.2	454.5
Investing activities			
Capital expenditures	(128.5)	(136.5)	(218.5)
Proceeds from the disposition of assets	87.7	11.5	1,275.6
Acquisitions, net of cash acquired	(3.0)	(685.1)	(45.6)
Return of investment in affiliates	1.5	2.0	22.5
Cash transfer from (to) Fortune Brands Home & Security, Inc. in spin-off		6.0	(115.8)
Net cash (used in) provided by investing activities	(42.3)	(802.1)	918.2
Financing activities			
Increase (decrease) in short-term debt, net	4.1	(27.6)	(34.4)
Repayment of long-term debt	(1,012.7)	(10.3)	(2,440.9)
Issuance of long-term debt	496.0	605.8	500.0
Dividends to stockholders	(145.7)	(130.1)	(117.8)
Proceeds from stock-based awards, net	176.9	112.7	102.3
Tax benefit on stock-based awards	13.6	16.3	4.2
Dividends paid to noncontrolling interests			(0.8)
Debt issuance costs	(1.0)	(1.0)	
Other financing activities, net		(1.6)	(15.1)
Net cash (used in) provided by financing activities	(468.8)	564.2	(2,002.5)
Effect of foreign exchange rate changes on cash	(1.2)	7.1	(16.6)
Net (decrease) increase in cash and cash equivalents	(88.5)	147.4	(646.4)
Change in cash included in assets of discontinued operations			53.2
Cash and cash equivalents at beginning of year	365.7	218.3	811.5
Cash and cash equivalents at end of year	$ 277.2	$ 365.7	$ 218.3

Cash paid during the year for (including discontinued operations in 2011):			
Interest	$ 118.6	$ 117.6	$ 210.8
Income taxes	94.4	96.4	125.0

See Notes to Consolidated Financial Statements.

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BEAM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(In millions)	$2.67 Convertible Preferred Stock	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock, At Cost	Non-controlling Interests	Total Equity
Balance at December 31, 2010, as previously reported	$ 4.9	$ 734.0	$ 820.2	$ (172.0)	$ 7,499.3	$ (3,215.3)	$ 16.9	$ 5,688.0
Correction of prior-period errors (Note 1)					3.0			3.0
Balance at December 31, 2010, as adjusted	$ 4.9	$ 734.0	$ 820.2	$ (172.0)	$ 7,502.3	$ (3,215.3)	$ 16.9	$ 5,691.0
Net income					902.7		4.1	906.8
Other comprehensive loss				(239.9)				(239.9)
Dividends paid to noncontrolling interests							(0.8)	(0.8)
Dividends					(117.8)			(117.8)
Stock-based compensation			54.8		(3.4)	103.4		154.8
Stock-based compensation tax benefits			9.2					9.2
Conversion of preferred stock	(0.2)		(1.8)			2.0		
Sale of Acushnet Company							(16.6)	(16.6)
Spin-off of Fortune Brands Home & Security, Inc.				107.8	(2,396.9)		(3.6)	(2,292.7)
Balance at December 31, 2011	$ 4.7	$ 734.0	$ 882.4	$ (304.1)	$ 5,886.9	$ (3,109.9)	$	$ 4,094.0
Net income					385.2			385.2
Other comprehensive income				118.1				118.1
Dividends					(130.1)			(130.1)
Stock-based compensation			13.2		(3.2)	126.1		136.1
Stock-based compensation tax benefits			12.8					12.8
Conversion of preferred stock	(3.4)		(31.2)			34.5		(0.1)
Redemption of preferred stock	(1.3)		(0.4)					(1.7)
Spin-off of Fortune Brands Home & Security, Inc.			(3.1)		(2.0)			(5.1)
Balance at December 31, 2012	$	$ 734.0	$ 873.7	$ (186.0)	$ 6,136.8	$ (2,949.3)	$	$ 4,609.2
Net income					362.5			362.5
Other comprehensive income				39.2				39.2
Dividends					(145.7)			(145.7)
Stock-based compensation			58.9		(1.0)	137.4		195.3
Stock-based compensation tax benefits			13.6					13.6
Balance at December 31, 2013	$	$ 734.0	$ 946.2	$ (146.8)	$ 6,352.6	$ (2,811.9)	$	$ 5,074.1

See Notes to Consolidated Financial Statements.

BEAM INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies
Description of Business

Beam Inc. and its subsidiaries (the Company) operate in the beverage alcohol industry. References to we, our, us, Beam and the Company to Beam Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires. The Company s reportable segments are North America, Europe/Middle East/Africa (EMEA), and Asia-Pacific/South America (APSA), as further discussed in Note 22, *Segment Information*.

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

Basis of Presentation

Basis of Consolidation

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

Use of Estimates

The presentation of financial statements in accordance with generally accepted accounting principles in the U.S. (GAAP) requires us to make judgments, estimates, and assumptions that affect the amount of assets and liabilities in the financial statements and revenues and expenses during the reporting periods (and related disclosures). Actual results in future periods could differ from those estimates.

Other presentation matters

The Company, formerly known as Fortune Brands, Inc. (Fortune Brands), separated its three business segments during 2011. It completed the sale of the Golf business (the Golf business) in July 2011 and the tax-free spin-off (the Spin-Off) of Fortune Brands Home & Security, Inc. (Home & Security) in October 2011. The consolidated statements of comprehensive income and cash flows do not separately state or classify activity relating to discontinued operations in 2011. Reclassification adjustments presented as a component of comprehensive income in the 2011 periods include amounts recorded to earnings due to the sale of the Golf business. Footnote disclosures only relate to continuing operations except where noted otherwise.

Revision of Prior Period Financial Statements

In connection with preparing our consolidated financial statements for the three and six months ended June 30, 2013, we identified errors that affected prior interim and annual periods related to the timing of recognition of sales of non-branded spirits, primarily Canadian whisky. We evaluated whether our previously issued consolidated financial statements were materially misstated considering the guidance in Accounting Standards Codification (ASC) 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality) and concluded that the errors individually and in the aggregate were not material to any of our previously issued financial statements. In accordance with accounting guidance in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we have revised previously issued financial statements to correct the effect of the errors. The correction of the errors decreased net sales, gross profit, income from continuing operations and earnings per share from continuing operations by $6.2 million, $1.4 million, $1.1 million and

BEAM INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

$0.01, respectively, for the year ended December 31, 2012 and increased inventory and deferred revenue $26.1 million and $42.1 million, respectively, at December 31, 2012. The correction of the errors decreased net sales, gross profit, income from continuing operations and earnings per share from continuing operations by $12.1 million, $5.4 million, $4.1 million and $0.03, respectively, for the year ended December 31, 2011 and increased inventory and deferred revenue $21.3 million and $35.9 million, respectively, at December 31, 2011. The cumulative impact of the correction of errors prior to 2011 was a decrease in stockholders equity of $6.9 million.

We have also revised previously issued 2012 and 2011 financial statements to correct for the following immaterial out-of-period adjustments identified in connection with preparing our second quarter 2013 financial statements and in 2012:

We have revised our 2012 and 2011 financial statements to reflect other out-of-period errors identified during the preparation of second quarter 2013 interim financial statements. The correction of these out-of-period adjustments decreased gross profit, income from continuing operations and earnings per share from continuing operations by $1.0 million, $0.6 million and $0.00, respectively, for the year ended December 31, 2012 and decreased gross profit, income from continuing operations and earnings per share from continuing operations by $4.5 million, $2.7 million and $0.02, respectively, for the year ended December 31, 2011. The cumulative impact of these other immaterial out-of-period adjustments prior to 2011 was a decrease to stockholders equity of $1.0 million.

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

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

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

In the fourth quarter of 2013, we identified an income tax error related to our pre-2011 financial statements. The correction of this error resulted in an increase of $13.4 million to other current assets and retained earnings as of January 1, 2012 in the consolidated balance sheet. The impact of this error was not material to any of our previously issued financial statements.

The impacts of the revisions on our financial statements are shown in the following tables. The cumulative impact of the correction of all errors prior to 2011 was an increase in stockholder s equity of $3.0 million (refer to the accompanying consolidated statement of equity).

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BEAM INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year Ended December 31, 2012			Year Ended December 31, 2011		
(In millions, except per share amounts)	**As Previously Reported**	**Adjustment**	**As Revised**	**As Previously Reported**	**Adjustment**	**As Revised**
Sales	$ 3,070.1	$ (6.2)	$ 3,063.9	$ 2,871.7	$ (12.1)	$ 2,859.6
Net sales	2,465.9	(6.2)	2,459.7	2,311.1	(12.1)	2,299.0
Cost of goods sold	1,027.5	(3.8)	1,023.7	987.8	(2.2)	985.6
Gross profit	1,438.4	(2.4)	1,436.0	1,323.3	(9.9)	1,313.4
Operating income	575.9	(2.4)	573.5	395.5	(9.9)	385.6