

FORTUNE BRANDS INC

Form 11-K

June 27, 2007

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 11-K

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9076

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A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

## FORTUNE BRANDS HOURLY EMPLOYEE RETIREMENT SAVINGS PLAN

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:  
FORTUNE BRANDS, INC.

520 Lake Cook Road

Deerfield, Illinois 60015



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**Fortune Brands Hourly Employee Retirement Savings Plan**

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**December 31, 2006 and 2005**

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

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**Report of Independent Registered Public Accounting Firm**

To the Corporate Employee Benefits

Committee of Fortune Brands, Inc.:

We have audited the accompanying statement of net assets available for benefits of the Fortune Brands Hourly Employee Retirement Savings Plan (the Plan ), as of December 31, 2006, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic 2006 financial statements taken as a whole. The supplemental schedule of assets held (at end of year) is presented for the purpose of additional analysis and is not a required part of the basic 2006 financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. This supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 financial statements taken as a whole.

/s/ Grant Thornton LLP

Chicago, Illinois

June 22, 2007

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**Report of Independent Registered Public Accounting Firm**

To the Corporate Employee Benefits Committee of Fortune Brands, Inc.

In our opinion, the accompanying statement of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Fortune Brands Hourly Employee Retirement Savings Plan (the Plan ) at December 31, 2005, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois

June 28, 2006

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

**December 31, 2006 and 2005**

**(Dollars in thousands)**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Plan's interest in Fortune Brands, Inc. Savings Plans Master Trust net assets	\$ 97,400	\$ 84,964
Participant loans	7,940	7,046
Receivables		
Company contributions	138	203
Participant contributions	40	112
Total receivables	178	315
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 105,518</b>	<b>\$ 92,325</b>

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

**Table of Contents****Fortune Brands Hourly Employee Retirement Savings Plan****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

Years ended December 31, 2006 and 2005

(Dollars in thousands)

	2006	2005
<b>Additions</b>		
Allocated share of Fortune Brands, Inc. Savings Plans Master Trust investment income	\$ 9,284	\$ 4,966
Interest on participant loans	408	281
Company contributions	4,748	4,640
Participant contributions	9,376	9,121
Transfers to the Plan (note E)	154	7,365
<b>Total additions</b>	<b>23,970</b>	<b>26,373</b>
<b>Deductions</b>		
Benefits paid to participants	9,719	8,750
Transfers from the Plan (note E)	1,058	1,107
<b>Total deductions</b>	<b>10,777</b>	<b>9,857</b>
<b>NET INCREASE</b>	<b>13,193</b>	<b>16,516</b>
Net assets available for benefits		
Beginning of year	92,325	75,809
End of year	\$ 105,518	\$ 92,325

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

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006 and 2005**

**NOTE A - DESCRIPTION OF PLAN**

**General**

The Fortune Brands Hourly Employee Retirement Savings Plan (the Plan) is a defined contribution plan covering certain hourly, non-union employees of certain operating subsidiaries of Fortune Brands, Inc. ( Fortune ) participating in the Plan. MasterBrand Cabinets, Inc. ( MasterBrand ) which includes Omega Cabinets, Ltd. ( Omega ), Moen Incorporated ( Moen ), Therma-Tru Corp. ( Therma-Tru ), and Waterloo Industries, Inc. ( Waterloo ) are the operating subsidiaries that contribute to the Plan and are referred to collectively as the Companies and individually as a Company. The Plan was amended effective April 1, 2006 to designate the Fortune Stock Fund as an ESOP (Employee Stock Ownership Plan) and to allow Participants the right to elect a cash payment of any dividends paid on the shares of Fortune Common Stock in the vested portion of their ESOP subaccounts. If a Participant does not elect cash payment of such dividends, they are automatically reinvested in his or her ESOP subaccount. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ), as amended.

The following provides a brief description of the Plan. Participants should refer to the Plan document for a more complete description of the Plan's provisions, which is available from the Plan administrator at 520 Lake Cook Road, Deerfield, Illinois 60015.

The financial statements present the net assets available for plan benefits as of December 31, 2006 and 2005, and the changes in net assets available for plan benefits for the years then ended. The assets of the Plan are included in a pool of investments known as the Fortune Brands, Inc. Savings Plans Master Trust (the Master Trust ), along with the assets of the Fortune Brands Retirement Savings Plan and the Future Brands LLC Retirement Savings Plan. The Master Trust investments are administered and held by The Fidelity Management Trust Company (the Trustee ).

**Contributions**

The Plan is a defined contribution plan. Contributions are held by the Trustee and accumulated in separate participant accounts. Participants may make tax deferred contributions under Section 401(k) of the Internal Revenue Code (the Code ) of up to 50% of eligible compensation. Participants' annual tax deferred contributions are limited by the Code to \$15,000 and \$14,000 in 2006 and 2005, respectively. In addition, during the year in which a participant attains age 50 and in subsequent years, the participant may elect an additional unmatched, pretax catch up contribution which is limited by the Code to \$5,000 in 2006 and \$4,000 in 2005. The Plan also permits each participant to make after-tax contributions to the Plan. However, total pre-tax and after-tax contributions may not exceed 50% of the participant's total eligible compensation.



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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE A - DESCRIPTION OF PLAN - Continued**

**Contributions Continued**

Along with catch-up contributions, the maximum amount a person can contribute to the Plan is 75% of eligible compensation.

Most of the Companies provide a matching contribution (in varying amounts) on a participant's elective contributions. Fortune, MasterBrand, and Therma-Tru each made profit-sharing contributions for their eligible employees in 2006. For more information on the amount of profit-sharing and matching contributions provided by each Company, refer to the Plan document, which is available from the Plan administrator.

Participants may direct the investment of their tax deferred contributions, catch-up contributions, after-tax contributions, matching contributions, profit sharing contributions, if any, and their Plan account balances in the available investment funds.

Participant account balances are maintained to reflect each participant's beneficial interest in the Plan's funds. Participant account balances are increased by participant and Company contributions (including rollovers from other plans) and decreased by the amount of withdrawals and distributions. Income and losses on Plan assets are allocated to participants' accounts based on the ratio of each participant's account balance invested in an investment fund to the total of all participants' account balances invested in that fund as of the preceding valuation date.

**Vesting**

Participants are immediately vested in their own contributions plus earnings on their contributions. Vesting in the Company matching and profit-sharing contributions, plus earnings on those contributions, occurs after one year of service. Therma-Tru participants are 100% vested in the Therma-Tru profit-sharing account at all times.

**Forfeitures**

Company contributions forfeited by nonvested terminated participants are retained by the Plan and used to reduce subsequent Company contributions. If a terminated participant returns to the Plan within a specified period of time (generally 5 years), the participant's previously forfeited amount will be reinstated to the participant's account. The forfeiture balance at December 31, 2006 and 2005 was approximately \$278,000 and \$188,000, respectively. There were no forfeitures utilized during the year ended December 31, 2006 to reduce Company contributions.

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE A - DESCRIPTION OF PLAN - Continued**

**Loans**

A participant may apply for a loan of at least \$1,000 from the vested portion of the participant's account balance (excluding the portion in certain subaccounts) in an amount which does not exceed one-half of the participant's vested balance, provided that the loan also does not exceed \$50,000. Any loans applied for are also reduced by any other loan outstanding under the Plan within the previous twelve months. The term of any loan shall not exceed five years, unless the loan is related to the purchase of the participant's principal residence. No more than one home residence loan and one loan for any other purpose may be outstanding at any time.

A new loan may not be applied for until 30 days after any prior loan is repaid in full. Each loan bears a rate of interest equal to the prime rate on the last day of the previous quarter at the time the loan is made, as quoted in the Wall Street Journal. Repayment is made by payroll deduction so that the loan is repaid over the term of the loan in substantially level installments not less frequently than quarterly.

**Distributions and Withdrawals**

Benefits are payable from a participant's account under the Plan's provisions, upon a participant's death, retirement or other termination of employment in a lump sum or in installment payments. The Plan also permits withdrawals to be made by participants who have incurred a hardship as defined in the Plan or after the attainment of age 59-1/2.

Distributions and withdrawals to which a participant is entitled are those, subject to certain eligibility and forfeiture provisions, that can be provided by the aggregate of employer and employee contributions and the income thereon (including net realized and unrealized investment gains and losses) allocated to such participant's account. Distributions and withdrawals are recorded when paid.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

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

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES   Continued**

**Use of Estimates**

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect the reported amounts of net assets available for plan benefits at the date of the financial statements and the changes in net assets available for plan benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Investment Valuation and Income**

The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Shares of mutual funds are valued at the net asset value of shares held in the Master Trust at year end. Participant loans are valued at their outstanding balances, which approximate fair value.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend basis. Interest income is recorded on the accrual basis.

**Operating Expenses**

Certain expenses incurred by the Plan are netted against earnings prior to allocation to participant accounts. These include investment manager, Master Trust and record-keeper expenses. Other expenses, including audit fees, are paid directly by Fortune Brands.

**Reclassifications**

Certain amounts were reclassified in the prior year financial statements to conform to current year presentation.

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE C - RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500**

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

	<b>2005</b>
Net assets available for Plan benefits as stated in the accompanying financial statements	\$ 92,325
Less amounts allocated to withdrawing participants	260
<b>Net assets available for Plan benefits as stated in Form 5500</b>	<b>\$ 92,065</b>

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

	<b>2006</b>	<b>2005</b>
Benefits paid to participants as stated in the accompanying financial statements	\$ 9,719	\$ 8,750
Add amounts allocated to withdrawing participants as of current year end		260
Add amounts allocated to withdrawing participants as of prior year end	260	1,174
<b>Benefits paid to participants as stated in Form 5500</b>	<b>\$ 9,459</b>	<b>\$ 7,836</b>

**NOTE D - PLAN AMENDMENTS**

The Plan was amended effective December 24, 2006 to reflect the merger of Capital Cabinet Corporation into MasterBrand Cabinets, Inc.

The Plan was amended effective July 1, 2006 to remove the Gallaher Fund and ACCO Stock Fund from the investment options offered under the Plan.

The Plan was amended effective April 1, 2006 to designate the Fortune Stock Fund as an ESOP (Employee Stock Ownership Plan) and to allow Participants the right to elect a cash payment of any dividends paid on the shares of Fortune Common Stock in the vested portion of their ESOP subaccounts.

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE D - PLAN AMENDMENTS   Continued**

The Plan was amended effective January 1, 2006 to comply with final regulations under Section 401(k) of the Internal Revenue Code.

The Plan was amended effective September 1, 2005 to transfer the hourly participants of the Therma-Tru 401(k) Retirement Savings Plan into the Plan and to preserve certain protected benefits provided under the Therma-Tru Plan.

The Plan was amended as of August 16, 2005 to provide a new investment fund consisting primarily of ACCO common stock and to spin-off assets and liabilities attributable to ACCO participants to a new plan sponsored by ACCO.

The Plan was amended effective June 1, 2005 to include certain employees of MasterBrand Cabinets Distributive Assembly group in the Plan.

The Plan was amended effective March 28, 2005 to change the automatic lump sum cashout of small benefits to amounts less than \$1,000.

**NOTE E - TRANSFERS TO AND FROM THE PLAN**

Transfers between the Plan, the Fortune Brands Retirement Savings Plan, and the Future Brands LLC Retirement Savings Plan also occur due to participant changes in status from hourly to salaried, or vice versa, or transfers between operating companies. Transfers out to other Plans were \$1,058,478 and transfers in were \$153,790, as of year end December 31, 2006.

The Therma-Tru Corp. 401(k) Plan merged into the Plan effective September 1, 2005. The value of the assets transferred totaled \$6,050,768. Outstanding loan balances of \$678,221 were also transferred.

Assets and liabilities attributable to ACCO participants were spun-off from the Plan on or about August 16, 2005. The value of the assets transferred totaled \$175,164. Outstanding loan balances totaling \$7,283 were also transferred.

Any resulting net transfer of assets occurred between the Fortune Brands Retirement Savings Plan and the Future Brands LLC Retirement Savings Plan as of year end December 31, 2005.

**Table of Contents****Fortune Brands Hourly Employee Retirement Savings Plan****NOTES TO FINANCIAL STATEMENTS - CONTINUED****December 31, 2006 and 2005****NOTE F - INVESTMENT IN MASTER TRUST**

The investments of the Master Trust are maintained under a trust agreement with the Trustee. The Plan had a total beneficial interest of approximately 11.36% and 11.31% in the Master Trust's net assets at December 31, 2006 and 2005, respectively.

Master Trust assets at December 31, 2006 and 2005, are as follows (in thousands):

	<b>2006</b>	<b>2005</b>
Interest and dividends receivable	\$ 73	\$ 235
Common stock - corporate		
Fortune Brands, Inc. common stock	76,211	74,226
Other common stock		12,752
Registered investment companies	733,383	622,777
Interest bearing cash	48,830	41,135
Non-interest bearing cash	105	
Total assets	858,602	751,125
Administrative expenses payable	(1,077)	(105)
Total net assets of the Master Trust available for benefits	\$ 857,525	\$ 751,020

The net appreciation in fair value of investments, interest income, dividend income and administrative expenses related to the Master Trust for the years ended December 31, 2006 and 2005, is as follows (in thousands):

	<b>2006</b>	<b>2005</b>
Net appreciation in fair value		
Common stock - corporate		
Fortune Brands, Inc. common stock	\$ 6,887	\$ 5,548
Other common stock	(267)	1,863
Registered investment companies	79,511	43,026
Net appreciation in fair value of investments of the Master Trust	86,131	50,437
Interest income	2,067	1,367
Dividend income	1,424	1,785
Administrative expenses	(147)	(126)
Total Master Trust Investment Income	\$ 89,475	\$ 53,463

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE G - RISKS AND UNCERTAINTIES**

The Plan provides for various investment options in any combination of stocks, bonds, fixed income securities, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in market value could materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits and the statements of changes in net assets available for plan benefits.

**NOTE H - TAX STATUS**

The Internal Revenue Service ( IRS ) issued a determination letter dated March 6, 2002 stating that the Plan meets the requirements of Section 401 (a) of the Code and that the Trust is exempt from federal income taxes under Section 501 (a) of the Code. The Plan has been amended since receiving the determination letter and a request for a new determination was filed January 31, 2007. The plan administrator believes that the Plan is currently designed and operated in compliance in all material respects with the applicable requirements of the Code.

**NOTE I - RELATED-PARTY TRANSACTIONS**

Certain Plan investments are shares of mutual funds managed by Fidelity Investments. Fidelity Investments is an affiliated company of Fidelity Management Trust Company, the Trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

The Plan also holds shares of Fortune Brands Common Stock in a unitized fund which is made up primarily of stock plus a percentage of short term investments.

Fees paid by the Plan for recordkeeping and investment management services amounted to \$91,400 and \$60,200 for the years ended December 31, 2006 and 2005, respectively.

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006 and 2005**

**NOTE J - PLAN TERMINATION**

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

**NOTE K - SUBSEQUENT EVENT**

Effective March 2, 2007, the Fidelity Equity-Income Fund was replaced by the Vanguard Windsor II Fund, Fidelity Growth & Income Portfolio was replaced by Vanguard Institutional Index Fund and the Fidelity Blue Chip Growth Fund was replaced by the T. Rowe Price Growth Stock Fund. All existing balances and future contributions in these investment options were automatically transferred to the new investment option unless a participant elected otherwise.



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**SUPPLEMENTAL SCHEDULE**

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**Fortune Brands Hourly Employee Retirement Savings Plan**

**SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)**

**December 31, 2006**

**(Dollars in thousands)**

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment	(e) Current Value
*	Loans to participants	Interest rates ranging from 4% to 9.5%	\$ 7,940
			\$ 7,940

\* Indicates a party-in-interest to the Plan.

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**SIGNATURE**

*The Plan.* Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FORTUNE BRANDS HOURLY EMPLOYEE RETIREMENT SAVINGS PLAN

By: /s/ Frank J. Cortese  
Frank J. Cortese, Chairman  
Corporate Employee Benefits Committee of Fortune Brands, Inc.

June 27, 2007

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EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
23.1	Consent of Independent Registered Public Accounting Firm, Grant Thornton LLP.
23.2	Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.