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FORTUNE BRANDS INC
Form 11-K
June 30, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

Commission file number 1-9076

Full Title of the Plan:

FORTUNE BRANDS HOURLY EMPLOYEE RETIREMENT SAVINGS PLAN

Name of the issuer of the securities held pursuant to the plan
and the address of its principal executive office:

FORTUNE BRANDS, INC.

300 Tower Parkway

Lincolnshire, Illinois 60069

Fortune Brands Hourly
Employee Retirement

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Savings Plan
Financial Statements
As of and for the Years Ended
December 31, 2002 and 2001

Fortune Brands Hourly Employee
Retirement Savings Plan
Contents
December 31, 2002 and 2001

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Note: 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.

Report of Independent Auditors

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

In our opinion, the accompanying statements of net assets available for plan benefits and the related statements of changes in net assets available for plan benefits present fairly, in all material respects, the net assets available for plan benefits of the Fortune Brands Hourly Employee Retirement Savings Plan (the "Plan") at December 31, 2002 and 2001, and the changes in net assets available for plan benefits for the years 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 audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan

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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 audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLC

May 23, 2003

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Fortune Brands Hourly Employee Retirement Savings Plan
Statement of Net Assets Available for Plan Benefits
As of December 31, 2002 and 2001
(In Thousands)

| | 2002 | 2001 |
|---|-----------|-----------|
| Assets | | |
| Beneficial interest in Fortune Brands, Inc. | | |
| Savings Plans Master Trust net assets | \$ 32,195 | \$ 30,929 |
| Receivables | | |
| Company contributions | 10 | 27 |
| Participant contributions | - | 12 |
| | ===== | ===== |
| Total assets | 32,205 | 30,968 |
| | ----- | ----- |
| Net assets available for plan benefits | \$ 32,205 | \$ 30,968 |
| | ===== | ===== |

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

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Fortune Brands Hourly Employee Retirement Savings Plan
 Statement of Changes in Net Assets Available for Plan Benefits
 For the Years Ended December 31, 2002 and 2001
 (In Thousands)

| | 2002 | 2001 |
|---|-----------|----------|
| ----- | | |
| Additions | | |
| Company contributions | \$ 2,530 | \$ 2,065 |
| Participant contributions | \$ 5,422 | 4,794 |
| Transfers to the plan (Note 5) | 65 | 31 |
| | ----- | ----- |
| Total additions | 8,017 | 6,890 |
| Deductions | | |
| Allocated share of Fortune Brands, Inc. Savings Plans Master Trust investment losses | 4,243 | 1,415 |
| Benefits paid to participants | 2,468 | 2,374 |
| Transfers from the plan (Note 5) | 69 | 163 |
| | ----- | ----- |
| Total deductions | 6,780 | 3,952 |
| Increase in net assets | 1,237 | 2,938 |
| | ===== | ===== |
| Net assets available for plan benefits, beginning of year | 30,968 | 28,030 |
| | ----- | ----- |
| Net assets available for plan benefits, end of year | \$ 32,205 | 30,968 |
| | ===== | ===== |

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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, 2002 and 2001

1. 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"), Moen Incorporated ("Moen"), Boone International, Inc. ("Boone"), 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 is subject to the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

The following provides a brief description of the Plan. For a complete description of the Plan, participants should refer to the specific provisions of the Plan document or to the Prospectus/ Summary Plan Description, each of which is available from the plan administrator at 300 Tower Parkway, Lincolnshire, Illinois 60069.

The financial statements present the net assets available for plan benefits as of December 31, 2002 and 2001, 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

Each participant may elect to contribute on a before-tax basis ("elective contributions") up to 50% of eligible compensation. A participant's elective contributions may not exceed the dollar amount provided by the Internal Revenue Code (the "Code"), which was \$11,000 and \$10,500 in 2002 and 2001, respectively. The Plan also permits each participant to make after-tax contributions to the Plan ("supplemental contributions"). However, total elective and supplemental contributions may not exceed 50% of the participant's total eligible compensation.

Moen and Waterloo each contributes, on behalf of each eligible participant, an amount equal to 50% of the participant's elective and supplemental contributions up to 6% of eligible compensation. Boone International, Inc. contributes 50% of the participant's contribution up to 6% of eligible compensation. MasterBrand contributes 40% of the participant's contribution up to 5% of eligible compensation for participants at its Littlestown, Pennsylvania, Crossville, Tennessee, and Kinston, North Carolina locations

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and participants at its distribution centers. MasterBrand also contributes 40% of the participant's contribution up to 3% of eligible compensation for participants at its Grants Pass, Oregon and Hillsboro, Oregon locations. Additionally, MasterBrand makes an annual profit sharing contribution in the amount of \$200 for each eligible participant who is employed at the Kinston, North Carolina facility on December 31 of the applicable year.

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Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

The Schrock Cabinet division of MasterBrand ("Schrock") contributes, on behalf of each eligible participant, 50% of the participant's elective and supplemental contributions up to 5% of eligible compensation and an additional 50% of the participant's elective and supplemental contributions up to 3% of eligible compensation. NHB Industries, Inc. ("NHB") (formerly NHB Holdings, Inc.), a subsidiary of MasterBrand, contributes, on behalf of each eligible participant, an amount equal to 40% of the participant's elective and supplemental contributions up to 5% of eligible compensation.

Participants may direct the investment of their elective contributions, supplemental contributions, matching contributions, profit sharing contributions, if any, and their Plan account balances in the available investment funds, excluding the Gallaher ADR Fund.

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 and certain administrative expenses 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 thereon. Vesting in the Company matching and profit sharing contributions plus earnings thereon occurs after one year of service.

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.

Loans

A participant may apply for a loan of at least \$1,000 from the vested portion of the participant's account balance in an amount which does not exceed one-half of the participant's vested balance, provided that the loan

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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. Each loan must be collateralized by a portion of the participant's account balance and evidenced by a written obligation payable to the Trustee which is invested in the loan fund. 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.

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Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

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.

Other

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.

2. Summary of Significant Accounting Policies

Presentation

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

Investment Valuation and Income

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The Master Trust's investments in securities (bonds, debentures, notes and stocks) traded on a national securities exchange are valued at the last reported sale price on the last business day of the year; securities traded in the over-the-counter market are valued at the last reported bid price; and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices. Participations in collective trust funds are stated at the Master Trust's beneficial interest in the aggregate fair value of assets held by the fund, as reported by the fund's manager.

Purchases and sales of securities are recorded on a trade-date basis. Gains or losses on sales of securities are based on average cost. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

The ratio of the Plan's assets to the fair value of all assets held in each fund in the Master Trust is used to allocate interest income, dividend income, realized gains (losses) and unrealized appreciation (depreciation) in the market value of investments on a monthly basis.

Certain expenses incurred by the Plan are netted against earnings prior to allocation to participant accounts. These include investment manager, trust and recordkeeper expenses.

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Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

3. Reconciliation of Financial Statements to Form 5500:

The following is a reconciliation of net assets available for Plan benefits as stated in the financial statements to Form 5500 at December 31, 2002 and 2001 (in thousands):

| | 2002 | 2001 |
|---|-----------|-----------|
| Net assets available for Plan benefits as stated in the accompanying financial statements | \$ 32,205 | \$ 30,968 |
| Less: Amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan | - | 1,078 |
| Less: Amounts allocated to withdrawing participants | 334 | 420 |
| | ----- | ----- |
| Net assets available for Plan benefits as stated in Form 5500 | \$ 31,871 | \$ 29,470 |
| | ===== | ===== |

The following is a reconciliation of benefits paid to participants as stated in the financial statements to the Form 5500 at December 31, 2002 and 2001 (in thousands):

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| | 2002 | 2001 |
|--|----------|----------|
| Benefits paid to participants as stated in the accompanying financial statements | \$ 2,468 | \$ 2,374 |
| Add: Amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan as of current year end | - | 1,078 |
| Add: Amounts allocated to withdrawing participants as of current year end | 334 | 420 |
| Less: Amounts payable to withdrawing participants, terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan as of prior year end | - | (1,251) |
| Less: Amounts allocated to withdrawing participants as of prior year end | 420 | - |
| | ----- | ----- |
| Benefits paid to participants as stated in Form 5500 | \$ 2,382 | \$ 2,621 |
| | ===== | ===== |

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Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

The following is a reconciliation of other income as stated in the financial statements to the Form 5500 at December 31, 2002 and 2001 (in thousands):

| | 2002 | 2001 |
|---|----------|-------|
| Other income as stated in the accompanying financial statements | \$ - | \$ - |
| Add: Adjustment of amounts payable to terminated employees and Plan participants who have retired or terminated employment but elected to have their assets remain in the Plan as of the prior year end | 1,078 | - |
| | ----- | ----- |
| Other income as stated in Form 5500 | \$ 1,078 | - |
| | ===== | ===== |

In the prior year, the Company reported benefits payable in the Form 5500 as amounts payable to employees who have retired or terminated employment but have elected to have their assets remain in the Plan. In the current year, the Company changed its method of reporting benefits payable to reflect amounts payable to employees who have retired or terminated employment and requested withdrawals but have not been paid out as of year end. The current year adjustment of the prior year benefits payable amount is reflected as other income in the Form 5500.

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4. Plan Amendments

The Plan was amended effective January 1, 2002 to define compensation as base pay, overtime pay, shift premiums, commissions, sales bonuses, and annual incentive bonuses up to \$200,000.

The Plan was amended effective January 1, 2002 to transfer hourly-paid employees of Boone International, Inc. from the Fortune Brands Retirement Savings Plan to the Plan.

The Plan was amended effective January 1, 2002 to increase the maximum participant contribution from 21% to 50% of compensation.

The Plan was amended effective January 1, 2002 to increase the Company matching contributions to 40% of each participant's tax deferred and after-tax contribution, not to exceed 5% of eligible compensation for participants employed at the Talladega, Alabama division of NHB and the Littlestown, Pennsylvania, Crossville, Tennessee, and Kinston, North Carolina locations or distribution centers of MasterBrand Cabinets, Inc.

The Plan was amended effective January 1, 2002 to increase the Company matching contributions to 40% of each participant's tax deferred and after-tax contribution, not to exceed 3% of eligible compensation for participants employed at the Grants Pass, Oregon and Hillsboro, Oregon locations of MasterBrand Cabinets, Inc.

The Plan was amended effective January 1, 2002 to provide that Boone International, Inc. provide a matching contribution of 50% of each participant's tax deferred and after-tax contribution, not to exceed 6% of eligible compensation.

The Plan was amended effective January 1, 2002 to allow the receipt of after-tax rollovers.

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Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

The Plan was amended effective January 1, 2002 to increase the maximum annual additions to participant accounts to the lesser of \$40,000 or 100% of the participant's compensation.

The Plan was amended effective January 1, 2002 to decrease the period of time following a participant's hardship withdrawal for which the participant cannot make tax deferred or after-tax contributions to six months.

The Plan was amended effective January 1, 2002 to allow participants who have attained age 50 to make "catch-up" contributions in accordance with Section 414(v) of the Code. This permits such individuals to make annual tax deferred contributions for specific amounts in excess of the Code's previously mentioned limits on such contributions.

The Plan was amended effective January 1, 2002 to change the definition of

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"Company" from MasterBrand Industries, Inc. to Fortune Brands, Inc.

The Plan was amended effective January 1, 2002 to add the Fidelity Value Fund.

5. Transfers to and from the Plan

Transfers relate to transactions in the ordinary course of business between the Plan, the Fortune Brands Retirement Savings Plan, and the Future Brands LLC Retirement Savings Plan.

6. Assets Held 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 6.14% and 5.16% in the Master Trust's net assets at December 31, 2002 and 2001, respectively.

Master Trust assets at December 31, 2002 and 2001 are as follows (in thousands):

| | 2002 | |
|---|------------|-------|
| Interest and dividends receivable | \$ 229 | \$ |
| Common Stock - corporate | | |
| Fortune Brands, Inc. common stock | 45,677 | |
| Other common stock | 94,831 | 1 |
| U.S. Government securities | 6,911 | |
| Corporate debt instruments | 6,799 | |
| Registered investment companies | 296,953 | 3 |
| Collateralized promissory notes from participants | 16,316 | |
| Interest bearing cash | 57,133 | |
| | ----- | ----- |
| Total assets | 524,849 | 5 |
| | ===== | ===== |
| Administrative expenses payable | (488) | |
| | ----- | ----- |
| Total net assets of the Master Trust available for benefits | \$ 524,361 | \$ 5 |
| | ===== | ===== |

Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

The net appreciation (depreciation) in fair value of investments, interest income, dividend income, and administrative expenses related to the Master Trust for the years ended December 31, 2002 and 2001 is as follows (in thousands):

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| | 2002 | 2001 |
|---|-------------|------------|
| Net appreciation (depreciation) in fair value | | |
| Common stock - corporate | | |
| Fortune Brands, Inc. common stock | \$ 6,752 | \$ (1,000) |
| Other common stock | (34,888) | (1,000) |
| U.S. Government securities | 847 | (1,000) |
| Corporate debt instruments | (315) | (1,000) |
| Registered investment companies | (64,722) | (1,000) |
| | ----- | ----- |
| Net depreciation in fair value of investments of the Master Trust | (92,326) | (1,000) |
| Interest income | 3,039 | (1,000) |
| Dividend income | 2,532 | (1,000) |
| Administrative expenses | (2,078) | (1,000) |
| | ----- | ----- |
| Total net loss of the Master Trust | \$ (88,833) | (1,000) |
| | ===== | ===== |

7. 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 statement of net assets available for plan benefits and the statement of changes in net assets available for plan benefits.

8. 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 benefits at the date of the financial statements and the changes in net assets available for 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.

9. Credit Risks

The Master Trust invests primarily in equity and fixed income funds. The fund managers invest in a large number of corporations, industries and other instruments in an attempt to limit exposure to significant loss. The funds maintain a diverse portfolio of common stock across various industry groups and a broad range of debt securities in terms of maturity and industry groups in order to maintain diversity in Master Trust investments. The Plan, however, is subject to risk of loss up to its proportionate share of such assets in the Master Trust.

Fortune Brands Hourly Employee Retirement Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001

10. Tax Status

The Internal Revenue Service ("IRS") issued a determination letter dated March 6, 2002 to MasterBrand Industries, Inc. 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. However, the plan administrator believes that the Plan is currently designed and operated in compliance with the applicable requirements of the Code. Generally, distributions and withdrawals under the Plan are taxable to participants or their beneficiaries in accordance with Section 402 of the Code.

11. Related-Party Transactions

Certain Plan investments are shares of mutual funds managed by The Fidelity Management Trust Company. The Fidelity Management Trust Company is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for recordkeeping and investment management services amounted to \$456,456 and \$380,239 for the years ended December 31, 2002 and 2001, respectively. In addition, fees payable to the trustee as of December 31, 2002 and 2001 were \$101,756 and \$90,370, respectively.

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporate Employee Benefits Committee of Fortune Brands, Inc. under

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the Fortune Brands Hourly Employee Retirement Savings Plan has duly caused this annual report to be signed on its behalf by the undersigned thereunto 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.

Date: June 30, 2003