

ANHEUSER-BUSCH COMPANIES, INC.

Form 10-Q

November 06, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER: 1-7823
ANHEUSER-BUSCH COMPANIES, INC.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

43-1162835

(State of Incorporation)

(I.R.S. Employer Identification No.)

One Busch Place, St. Louis, Missouri 63118

(Address of principal executive offices) (Zip Code)

(314) 577-2000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

\$1 Par Value Common Stock 723,043,267 shares as of September 30, 2008.

TABLE OF CONTENTS

Item 3. Disclosures About Market Risks

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 6. Exhibits

Signatures

EX-12

EX-31.1

EX-31.2

EX-32.1

EX-32.2

Table of ContentsAnheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)

In millions, except per share	Sept 30, 2008	Dec 31, 2007
Assets		
Current Assets:		
Cash	\$ 314.3	\$ 283.2
Accounts receivable	1,131.1	805.2
Inventories	782.6	723.5
Other current assets	259.7	212.6
Total current assets	2,487.7	2,024.5
Investments in affiliated companies	4,290.6	4,019.5
Plant and equipment, net	8,725.7	8,833.5
Intangible assets, including goodwill of \$1,198.4 and \$1,134.6	1,644.7	1,547.9
Other assets	711.0	729.6
Total Assets	\$ 17,859.7	\$ 17,155.0
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 1,721.7	\$ 1,464.5
Accrued salaries, wages and benefits	393.3	374.3
Accrued taxes	458.3	106.2
Accrued interest	118.3	136.4
Other current liabilities	339.5	222.4
Total current liabilities	3,031.1	2,303.8
Retirement benefits	926.5	1,002.5
Debt	7,688.6	9,140.3
Deferred income taxes	1,339.9	1,314.6
Other long-term liabilities	254.3	242.2
Shareholders Equity:		
Common stock, \$1.00 par value, authorized 1.6 billion shares	1,498.4	1,482.5
Capital in excess of par value	4,128.7	3,382.1
Retained earnings	19,051.4	17,923.9
Treasury stock, at cost	(19,430.1)	(18,714.7)
Accumulated nonowner changes in equity	(629.1)	(922.2)
Total Shareholders Equity	4,619.3	3,151.6
Commitments and contingencies		

Total Liabilities and Shareholders Equity	\$ 17,859.7	\$ 17,155.0
---	-------------	-------------

See the accompanying footnotes on pages 5 to 11.

Table of ContentsAnheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Statement of Income (Unaudited)

In millions, except per share	Third Quarter		Nine Months	
	Ended Sept 30,		Ended Sept 30,	
	2008	2007	2008	2007
Gross sales	\$ 5,548.6	\$ 5,237.4	\$ 15,539.4	\$ 14,769.2
Excise taxes	(632.0)	(619.7)	(1,802.2)	(1,777.7)
Net Sales	4,916.6	4,617.7	13,737.2	12,991.5
Cost of sales	(3,015.0)	(2,868.5)	(8,643.5)	(8,201.1)
Gross profit	1,901.6	1,749.2	5,093.7	4,790.4
Marketing, distribution and administrative expenses	(810.9)	(777.4)	(2,310.4)	(2,199.3)
Corporate charges	(166.2)		(166.2)	
Gain on sale of distribution rights	15.3	26.5	15.3	26.5
Operating income	939.8	998.3	2,632.4	2,617.6
Interest expense	(116.0)	(119.4)	(366.7)	(359.0)
Interest capitalized	3.6	4.5	12.6	12.2
Interest income	1.1	0.7	3.4	2.7
Other income/(expense), net	0.8	(12.6)	(1.2)	(8.9)
Income before income taxes	829.3	871.5	2,280.5	2,264.6
Provision for income taxes	(337.4)	(350.0)	(881.5)	(902.7)
Equity income, net of tax	174.2	185.2	467.2	539.3
Net income	\$ 666.1	\$ 706.7	\$ 1,866.2	\$ 1,901.2
Basic earnings per share	\$.92	\$.96	\$ 2.60	\$ 2.53
Diluted earnings per share	\$.90	\$.95	\$ 2.55	\$ 2.49
Weighted average shares outstanding				
Basic	722.4	738.6	717.7	752.3
Diluted	744.2	745.4	733.1	763.0

See the accompanying footnotes on pages 5 to 11.

Table of ContentsAnheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)

In millions	Nine Months Ended Sept 30,	
	2008	2007
Cash flow from operating activities:		
Net income	\$ 1,866.2	\$ 1,901.2
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	756.3	748.3
Decrease in deferred income taxes	(21.2)	(71.1)
Stock-based compensation expense	45.5	46.4
Undistributed earnings of affiliated companies	(34.7)	(126.0)
Gain on sale of business	(15.3)	(42.5)
Corporate charges	140.9	
Other, net	(15.3)	79.6
Operating cash flow before the change in working capital	2,722.4	2,535.9
Decrease/(Increase) in working capital	120.4	(83.4)
Cash provided by operating activities	2,842.8	2,452.5
Cash flow from investing activities:		
Capital expenditures	(572.4)	(564.8)
Acquisitions	(93.1)	(84.7)
Proceeds from sale of business	52.3	41.6
Cash used for investing activities	(613.2)	(607.9)
Cash flow from financing activities:		
Increase in debt	5.0	906.4
Decrease in debt	(1,463.2)	(257.8)
Dividends paid to shareholders	(738.7)	(691.8)
Acquisition of treasury stock	(723.4)	(1,934.9)
Shares issued under stock plans	721.8	215.8
Cash used for financing activities	(2,198.5)	(1,762.3)
Net increase in cash during the period	31.1	82.3
Cash, beginning of period	283.2	219.2
Cash, end of period	\$ 314.3	\$ 301.5

See the accompanying footnotes on pages 5 to 11.

Table of Contents**Anheuser-Busch Companies, Inc. and Subsidiaries**
Notes to Unaudited Consolidated Financial Statements**1. Unaudited Financial Statements**

The unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles and applicable SEC guidelines pertaining to quarterly financial reporting, and include all adjustments necessary for a fair presentation. These statements should be read in combination with the consolidated financial statements and notes included in the company's annual report on Form 10-K for the year ended December 31, 2007.

2. Business Segments Information

Comparative business segments information for the third quarter and nine months ended September 30 (in millions):

Third Quarter	U.S. Beer	International Beer	Packaging	Entertainment	Corporate & Elims	Consolidated
2008						
Gross Sales	\$4,032.8	436.4	681.4	499.2	(101.2)	\$5,548.6
Net Sales:						
- Intersegment	\$ 0.9	0.1	250.7		(251.7)	\$
- External	\$3,465.6	370.6	430.7	499.2	150.5	\$4,916.6
Income Before Income Taxes	\$ 897.0	46.2	67.7	169.7	(351.3)	\$ 829.3
Equity Income	\$ (0.8)	175.0				\$ 174.2
Net Income	\$ 555.4	203.6	42.0	105.2	(240.1)	\$ 666.1
2007						
Gross Sales	\$3,803.7	380.0	698.6	479.5	(124.4)	\$5,237.4
Net Sales:						
- Intersegment	\$ 0.8	0.1	256.9		(257.8)	\$
- External	\$3,251.8	311.3	441.7	479.5	133.4	\$4,617.7
Income Before Income Taxes	\$ 811.8	34.6	50.6	175.0	(200.5)	\$ 871.5
Equity Income	\$ 1.8	183.4				\$ 185.2
Net Income	\$ 505.1	204.9	31.4	108.5	(143.2)	\$ 706.7

5

Table of Contents

Nine Months	U.S.	International			Corporate	
2008	Beer	Beer	Packaging	Entertainment	& Elims	Consolidated
Gross Sales	\$ 11,500.6	1,176.8	2,052.6	1,137.2	(327.8)	\$ 15,539.4
Net Sales:						
- Intersegment	\$ 2.6	0.2	738.3		(741.1)	\$
- External	\$ 9,877.8	994.6	1,314.3	1,137.2	413.3	\$ 13,737.2
Income Before Income						
Taxes	\$ 2,481.7	131.8	157.1	270.0	(760.1)	\$ 2,280.5
Equity Income	\$ (1.9)	469.1				\$ 467.2
Net Income	\$ 1,536.8	550.8	97.4	167.4	(486.2)	\$ 1,866.2
2007						
Gross Sales	\$ 11,003.0	1,022.1	2,048.0	1,065.1	(369.0)	\$ 14,769.2
Net Sales:						
- Intersegment	\$ 2.5	0.6	738.6		(741.7)	\$
- External	\$ 9,406.0	838.3	1,309.4	1,065.1	372.7	\$ 12,991.5
Income Before Income						
Taxes	\$ 2,361.5	83.7	150.1	270.4	(601.1)	\$ 2,264.6
Equity Income	\$ 3.4	535.9				\$ 539.3
Net Income	\$ 1,467.5	587.8	93.1	167.6	(414.8)	\$ 1,901.2

In 2008, the company changed reporting responsibility for beer sales in the Caribbean region from U.S. Beer to International Beer and also reassigned certain administrative and technology support costs between Corporate and U.S. Beer. Segment results for 2007 have been updated to conform to the revised reporting conventions.

3. Stock Compensation

Under the terms of the company's stock option plans, officers, certain other employees and non-employee directors may be granted options to purchase the company's common stock at a price equal to the New York Stock Exchange closing composite tape on the date the option is granted. Options generally vest over three years and have a maximum term of 10 years. At September 30, 2008, existing stock plans authorized issuance of 120 million shares of common stock. The company has the choice of issuing either new shares or from treasury stock when options are exercised under employee stock compensation plans. Under the plan for the board of directors, shares are issued from treasury stock.

For financial reporting purposes, stock compensation expense is included in cost of sales and marketing, distribution and administrative expenses, depending on where the recipient's cash

Table of Contents

compensation is reported, and is classified as a corporate item for business segments reporting. Unrecognized stock compensation expense as of September 30, 2008 totaled \$72 million, which is expected to be recognized in the fourth quarter.

The following table provides additional information regarding options outstanding and options that were exercisable as of September 30, 2008 (options and in-the-money values in millions).

Range of Exercise Prices	Remaining Number	Options Outstanding			Options Exercisable		
		Wtd. Avg. Life	Wtd. Avg. Exercise Price	Pretax In-The-Money Value	Wtd. Avg. Exercise Price	Pretax In-The-Money Value	
\$20 - \$29	0.4	0.2 years	\$ 29.97	\$ 12.7	0.4	\$ 29.69	\$ 12.7
\$30 - \$39	3.0	1.1 years	\$ 37.84	81.6	3.0	\$ 37.84	81.6
\$40 - \$49	46.6	4.9 years	\$ 46.50	1,019.4	37.4	\$ 46.75	683.8
\$50 - \$54	34.1	6.2 years	\$ 51.46	331.3	24.5	\$ 51.29	331.3
\$20 - \$54	84.1	5.3 years	\$ 48.13	\$ 1,445.0	65.3	\$ 47.94	\$ 1,109.4

4. Derivatives

Anheuser-Busch accounts for its derivatives in accordance with FAS 133, Accounting for Derivatives and Other Hedging Instruments, and therefore defers in accumulated non owner changes in shareholders equity the portion of cash flow hedging gains and losses that equal the change in cost of the underlying hedged transactions. As the underlying hedged transactions occur, the associated deferred hedging gains and losses are reclassified into earnings to match the change in cost of the transaction. For fair value hedges, the changes in value for both the derivative and the underlying hedged exposure are recognized in earnings each quarter.

Following are pretax gains and losses from derivatives which were recognized in earnings during the third quarter and nine months (in millions). These gains and losses effectively offset changes in the cost or value of the company's hedged exposures.

Third Quarter				Nine Months			
2008		2007		2008		2007	
Gains	Losses	Gains	Losses	Gains	Losses	Gains	Losses
\$ 8.8	\$ 3.3	\$ 4.9	\$ 7.8	\$ 22.8	\$ 9.2	\$ 11.4	\$ 17.2

The company immediately recognizes in earnings any portion of derivative gains or losses that are not 100% effective at offsetting price changes in the underlying transactions. Anheuser-Busch recognized net pretax gains due to this hedge ineffectiveness of \$9.8 million for the third quarter of 2008 compared to net ineffective pretax gains of \$5.1 million for the third quarter of 2007. For the nine months, the company recognized net ineffective gains of \$4.1 million in 2008 and \$3.7 million in 2007.

Table of Contents**5. Earnings Per Share**

Earnings per share are calculated by dividing net income by weighted-average common shares outstanding for the period. The difference between basic and diluted weighted-average common shares is the dilutive impact of unexercised in-the-money stock options. There were no adjustments to net income for any period shown for purposes of calculating earnings per share. Weighted-average common shares outstanding for the third quarter and nine months ended September 30 are shown below (millions of shares):

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Basic weighted average shares	722.4	738.6	717.7	752.3
Diluted weighted average shares	744.2	745.4	733.1	763.0

6. Nonowner Changes in Shareholders Equity

The components of accumulated nonowner changes in shareholders equity, net of applicable taxes, as of September 30, 2008 and December 31, 2007 follow (in millions):

	Sept 30, 2008	Dec 31, 2007
Foreign currency translation gains / (losses)	\$ (57.2)	\$ (347.0)
Deferred hedging gains / (losses)	(29.7)	0.1
Deferred securities valuation gains / (losses)	0.5	1.0
Deferred retirement benefits costs	(542.7)	(576.3)
Accumulated nonowner changes in shareholders equity	\$ (629.1)	\$ (922.2)

Combined net income and nonowner changes in shareholders equity, net of applicable taxes, for the third quarter and nine months ended September 30 follows (in millions):

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Net income	\$ 666.1	\$ 706.7	\$ 1,866.2	\$ 1,901.2
Net change in foreign currency translation	6.2	(69.3)	289.8	36.6
Net change in deferred hedging gains / (losses)	(59.4)	(3.7)	(29.8)	(7.6)
Net change in deferred securities valuation	(0.8)	(0.5)	(0.5)	(0.7)
Net change in deferred retirement benefits costs	11.3	15.5	33.6	46.5
Combined net income and nonowner changes in shareholders equity	\$ 623.4	\$ 648.7	\$ 2,159.3	\$ 1,976.0