ANHEUSER BUSCH COMPANIES INC
Form 10-Q
April 30, 2004

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 Quarter Ended March 31, 2004

Commission file number 1-7823

ANHEUSER-BUSCH COMPANIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	43-1162835 (I.R.S. Employer Identification No.)
One Busch Place, St. Louis, Missouri (Address of principal executive offices)	63118 (Zip Code)

314-577-2000
(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes [X] 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 - 804,216,404 shares as of March 31, 2004

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Anheuser-Busch Companies, Inc. and Subsidiaries
Consolidated Balance Sheet (Unaudited)

(In millions)	March 31, 2004	Dec
Assets		
Current Assets:		
Cash	$ 138.4	$
Accounts receivable	898.1	
Inventories:		
Raw materials and supplies	367.8	
Work in progress	99.5	
Finished goods	239.3	
Total inventories	706.6	
Other current assets	176.1	
Total current assets	1,919.2	
Investments in affiliated companies	3,213.9	
Plant and equipment, net	8,483.9	
Intangible assets, including goodwill of $349.0 million in both periods	497.8	
Other assets	996.9	
Total Assets	$ 15,111.7	$
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 979.1	$
Accrued salaries, wages and benefits	237.0	
Accrued taxes	419.1	
Other current liabilities	363.6	
Total current liabilities	1,998.8	
Postretirement benefits	464.7	
Debt	7,532.3	
Deferred income taxes	1,501.9	
Other long-term liabilities	894.2	
Shareholders Equity:		
Common stock, $1.00 par value, 1.6 billion shares authorized	1,459.9	
Capital in excess of par value	1,251.9	
Retained earnings	14,307.0	
Treasury stock, at cost	(13,492.7)	(
Accumulated other comprehensive loss	(806.3)	
ESOP debt guarantee	--	
Total Shareholders Equity	2,719.8	
Commitments and contingencies	--	
Total Liabilities and Shareholders Equity	$ 15,111.7	$

See the accompanying footnotes on pages 5 -- 10.

Anheuser-Busch Companies, Inc., and Subsidiaries
Consolidated Statement Of Income And Retained Earnings (Unaudited)

(In millions, except per share data)	First Quarter Ended March 31,	
	2004	2003
Gross sales	$ 4,003.0	$ 3,794.9
Excise taxes	(526.0)	(514.3)
Net sales	3,477.0	3,280.6
Cost of sales	(2,073.3)	(1,974.4)
Gross profit	1,403.7	1,306.2
Marketing, distribution & administrative expenses	(582.3)	(542.1)
Operating income	821.4	764.1
Interest expense	(101.7)	(98.7)
Interest capitalized	5.2	4.4
Interest income	1.1	0.1
Other income/(expense), net	27.6	(0.2)
Income before income taxes	753.6	669.7
Provision for income taxes	(292.6)	(259.3)
Equity income, net of tax	88.9	74.4
Net income	549.9	484.8
Retained earnings, beginning of period	13,935.4	12,544.0
Common stock dividends (per share: 2004 - $.22; 2003 - $.195)	(178.3)	(164.1)
Retained earnings, end of period	$14,307.0	$12,864.7
Basic earnings per share	$.68	$.58
Diluted earnings per share	$.67	$.57

See the accompanying footnotes on pages 5 -- 10.

Anheuser-Busch Companies, Inc. and Subsidiaries

Consolidated Statement Of Cash Flows (Unaudited)

(In millions)	Three Mo Mar
	2004
Cash flow from operating activities:	
Net Income	$ 549.9
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	224.0
Deferred income taxes	39.8
Undistributed earnings of affiliated companies	(85.4)
Other, net	64.3
Operating cash flow before change in working capital	792.6
Increase in working capital	(199.4)
Cash provided by operating activities	593.2
Cash flow from investing activities:	
Capital expenditures	(199.0)
Acquisitions	(32.9)
Cash used for investing activities	(231.9)
Cash flow from financing activities:	
Increase in debt	500.3
Decrease in debt	(200.8)
Dividends paid to shareholders	(178.3)
Acquisition of treasury stock	(578.6)
Shares issued under stock plans	43.4
Cash used for financing activities	(414.0)
Net decrease in cash during the period	(52.7)
Cash, beginning of period	191.1
Cash, end of period	$ 138.4

See the accompanying footnotes on pages 5 -- 10.

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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, 2003.

2. Business Segments Information

Comparative business segment information for the first quarter ended March 31 (in millions):

	Domestic Beer	Int'l Beer	Packaging	Entertain.	Other	Corporate & Elims.
2004						
Gross Sales	$3,258.1	193.1	521.4	154.1	10.8	(134.5
Net Sales:						
- Intersegment	--	--	$210.1	--	1.0	(211.1
- External	$2,766.4	158.8	311.3	154.1	9.8	76.6
Income Before Income Taxes	$ 862.7	22.9	36.8	(11.0)	(4.5)	(153.3
Equity Income, Net of Tax	--	$ 88.9	--	--	--	--
Net Income	$ 534.9	103.1	22.8	(6.8)	(2.8)	(101.3

	Domestic Beer	Int'l Beer	Packaging	Entertain.	Other	Corporate & Elims.
2003						
Gross Sales	$3,138.8	166.2	497.0	125.8	12.1	(145.0
Net Sales:						
- Intersegment	--	--	$214.5	--	1.1	(215.6
- External	$2,650.7	140.0	282.5	125.8	11.0	70.6
Income Before Income Taxes	$ 799.6	20.2	33.8	(20.5)	(2.6)	(160.8
Equity Income, Net of Tax	--	$ 74.4	--	--	--	--
Net Income	$ 495.8	86.9	21.0	(12.7)	(1.6)	(104.6

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3. 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 first quarter ended March 31 are shown below (millions of shares):

	First Quarter	
	2004	2003
Basic weighted average shares outstanding	810.6	840.7
Diluted weighted average shares outstanding	820.6	850.5

4. Comprehensive Income / (Loss)

The components of accumulated other comprehensive loss as of March 31, 2004 and December 31, 2003 follow (in millions):

	Mar. 31, 2004	Dec. 31
Foreign currency translation loss	$(587.8)	$(669
Deferred hedging gains	49.1	59
Deferred securities valuation gains	185.4	172
Minimum pension liability	(453.0)	(453
Total accumulated other comprehensive loss	$(806.3)	$(890

Comprehensive income for the first quarter ended March 31 follows (in millions):

	First Quarter	
	2004	2003
Net income	$549.9	$ 484.8
Foreign currency translation gains/(losses)	81.6	(207.4)
Net change in deferred hedging gains and losses	(10.7)	(2.5)

Deferred securities valuation gains	13.1	7.7
Comprehensive income	$633.9	$ 282.6

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5. Derivatives

Anheuser-Busch accounts for its derivatives under FAS 133, "Accounting for Derivatives and Other Hedging Instruments," and therefore defers hedging gains and losses that are effective at offsetting price changes in the underlying hedged exposures. The company reclassified deferred gains of $17.7 million and deferred losses of $0.4 million from accumulated other comprehensive loss into operating income during the first quarter 2004 as underlying hedged transactions occurred.

The company recognized net gains due to hedge ineffectiveness totaling $24.1 million for the first quarter 2004, compared to net gains of $0.1 million for first quarter 2003. The first quarter 2004 gain includes $19.5 million related to the sale of commodity hedges, which is reported in other income. The hedges were originally placed using estimates of costs to be contained in the renewal of supply contracts. Anheuser-Busch lowered its cost estimates during the quarter, resulting in significant hedge ineffectiveness in compliance with FAS 133. Due to the hedge ineffectiveness, the company sold these hedges and realized the ineffective portion of the gain.

6. Goodwill

Following is goodwill by business segment, as of March 31, 2004 and December 31, 2003 (in millions). Goodwill is included in either other assets or investment in affiliated companies, as appropriate, in the consolidated balance sheet. The change in goodwill is entirely due to changes in foreign currency exchange rates.

	Mar. 31, 2004	Dec. 31, 2003
Domestic Beer	$ --	$ --
International Beer	701.0	679.7
Packaging	21.9	21.9
Entertainment	288.3	288.3
Total goodwill	$1,011.2	$989.9

7. Stock Based Compensation

The company accounts for employee stock options in accordance with APB 25, "Accounting for Stock Issued to Employees," and therefore recognizes no compensation expense related to employee stock options, since options are always granted at a price equal to the market price on the day of grant.

Following is the pro forma impact on net income and earnings per share for the first quarter ended March 31, as if compensation expense had been recognized based on the fair value of the stock options on the grant date (in millions, except per share). To determine the pro forma impact, the fair value of stock options is estimated on the date of grant using the Black-Scholes option-pricing model and is then hypothetically amortized to compensation expense over the three-year vesting period.

	First Quarter	
	2004	2003
Reported Net Income	$549.9	$484.8
Pro Forma Impact of Expensing Stock Options	(29.1)	(27.8)
Pro Forma Net Income	$520.8	$457.0
Reported Basic Earnings Per Share	$ .68	$ .58
Pro Forma Impact of Expensing Stock Options	(.04)	(.04)
Pro Forma Basic Earnings Per Share	$ .64	$ .54
Reported Diluted Earnings Per Share	$ .67	$ .57
Pro Forma Impact of Expensing Stock Options	(.04)	(.03)
Pro Forma Diluted Earnings Per Share	$ .63	$ .54

For disclosure purposes, the fair value of stock options granted is required to be based on a theoretical option-pricing model. In actuality, because the company's employee stock options are not traded on an exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of Anheuser-Busch stock. Such an increase in stock price benefits all stockholders.

8. Contingencies

In January 1997, Maris Distributing Company, Inc., a former Anheuser-Busch wholesaler in Florida, initiated litigation against the company alleging breach of contract and 12 other claims. Anheuser-Busch terminated its distribution agreement with Maris Distributing in March 1997. During the course of litigation, nine claims were resolved in favor of Anheuser-Busch and a defamation claim brought by Maris was mistried. In August 2001, a jury rendered a verdict against the company in the amount of $50 million on two remaining claims. The court subsequently awarded plaintiffs an additional $22.6 million in accumulated prejudgment interest on the jury award, which may continue to accrue at a rate that is fixed annually. Anheuser-Busch continues to believe it acted appropriately in terminating the distribution agreement of Maris Distributing. In May 2003, the Court of Appeals remanded the case to the trial court for resolution of issues relating to the defamation claim. In September 2003, the trial court determined that Maris Distributing's amended defamation claim could proceed. Anheuser-Busch is vigorously contesting that claim and is seeking review of the decision of the trial court to permit the defamation claim to proceed. The appeals of the 2001 verdict cannot be heard by the Court of Appeals until matters relating to the defamation claim are resolved. The company continues to vigorously contest the verdict. However, resolution is not expected to occur quickly and the ultimate impact of this matter on the company's financial position, results of operations or cash flows cannot presently be predicted. The company's results do not include any expense related to the Maris Distributing judgment or interest for any period shown.

The company and certain of its subsidiaries are involved in additional claims and legal proceedings in which monetary damages and other relief is sought. The company is vigorously contesting these claims; however resolution is not expected

to occur quickly, and their ultimate outcome cannot presently be predicted. It is the opinion of management that the ultimate resolution of these claims, legal proceedings and other contingencies, either individually or in the aggregate, will not materially affect the company's financial position, results of operations or liquidity.

9. Pension and Other Postretirement Benefits Expense

The components of total quarterly expense for pensions and other postretirement benefits are shown below for the first quarter of 2004 and 2003 (in millions):

	Pensions		Po
	2004	2003	2004
Service cost (benefits earned during the period)	$ 20.3	$18.6	$ 5.9
Interest cost on benefit obligation	39.6	38.0	9.4
Assumed return on plan assets	(47.7)	(47.2)	---
Amortization of prior service cost and net actuarial (gains)/losses	15.6	9.0	(0.8
Expense for defined benefit plans	27.8	18.4	14.5
Cash contributed to multi-employer pension plans	4.1	4.2	---
Cash contributed to defined contribution pension plans	4.6	4.6	---
Total quarterly benefits expense	$ 36.5	$27.2	$14.5

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of Anheuser-Busch Companies, Inc. for the first quarter ended March 31, 2004, compared to the first quarter ended March 31, 2003, and the year ended December 31, 2003. This discussion should be read in conjunction with the consolidated financial statements and notes included in the company's annual report to shareholders for the year ended December 31, 2003.

This discussion contains forward-looking statements regarding the company's expectations concerning its future operations, earnings and prospects. On the date the forward-looking statements are made, the statements represent the company's expectations, but the company's expectations concerning its future operations, earnings and prospects may change. The company's expectations involve risks and uncertainties (both favorable and unfavorable) and are based on many assumptions that the company believes to be reasonable, but such assumptions may ultimately prove to be inaccurate or incomplete, in whole or in part. Accordingly, there can be no assurances that the company's expectations and the forward-looking statements will be correct. Important factors that could cause actual results to differ (favorably or unfavorably) from the expectations stated in this discussion include, among others, changes in the pricing environment for the company's products; changes in U.S. demand for malt beverage products; changes in consumer preference for the company's malt beverage products; regulatory or legislative changes, including changes in beer excise taxes at either the federal or state level; changes in the litigation to which the company is a party; changes in raw materials prices; changes in packaging materials costs; changes in interest rates; changes in foreign currency exchange rates; unusual weather conditions that could impact beer consumption in the U.S.; changes in attendance and consumer spending patterns for the company's theme park operations; changes in demand for aluminum beverage containers; changes in the company's international beer business or in the

beer business of the company's international equity partners; changes in the company's credit rating resulting from future acquisitions or divestitures; and the effect of stock market conditions on the company's share repurchase program. Anheuser-Busch disclaims any obligation to update any of these forward-looking statements.

RESULTS OF OPERATIONS

With strong growth from all its major operating segments, Anheuser-Busch achieved record sales and earnings during the first quarter 2004. Consolidated net sales increased 6.0% in the first quarter and earnings per share increased 17.5%. First quarter results benefited from a $19.5 million pretax gain ($.015 per share) from the sale of commodity hedges. This gain is reported in other income/(expense) on the consolidated income statement and as such does not impact gross profit or operating income. Earnings per share excluding this gain increased 14.9% versus first quarter 2003.

Anheuser-Busch had another excellent quarter and continued its track record of delivering consistent and dependable earnings growth. The company has now achieved 22 consecutive quarters of solid double-digit earnings per share growth and remains confident in its ability to consistently achieve its double-digit earnings per share growth objective over the long-term, and the 12% earnings per share growth target for 2004 (excluding the benefit of the commodity hedge gain).

Strong growth in domestic revenue per barrel drove a continued enhancement in profit margins in the quarter. Gross and operating profit margins improved 60 basis points and 30 basis points, respectively, compared to the first quarter 2003. Return on capital employed increased 100 basis points over the past twelve months to 18.8%.

BEER SALES RESULTS

The company's beer volume is summarized in the following table:

Beer Volume (millions of barrels)			
	First Quarter		2004 versus
	2004	2003	Barrels
Domestic	25.1	24.9	Up 0.2
International	1.9	1.8	Up 0.1