

Philip Morris International Inc.  
Form 10-Q  
May 03, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended March 31, 2013  
OR

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 001-33708  
Philip Morris International Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3435103  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

120 Park Avenue 10017  
New York, New York  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (917) 663-2000

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 such filing requirements for the past 90 days. Yes  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  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.

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At April 30, 2013, there were 1,635,507,185 shares outstanding of the registrant's common stock, no par value per share.

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In this report, "PMI," "we," "us" and "our" refers to Philip Morris International Inc. and its subsidiaries.	

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Philip Morris International Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$3,981	\$2,983
Receivables (less allowances of \$57 in 2013 and \$56 in 2012)	3,591	3,589
Inventories:		
Leaf tobacco	3,441	3,548
Other raw materials	1,624	1,610
Finished product	2,911	3,791
	7,976	8,949
Deferred income taxes	381	450
Other current assets	732	619
Total current assets	16,661	16,590
Property, plant and equipment, at cost	13,568	13,879
Less: accumulated depreciation	7,095	7,234
	6,473	6,645
Goodwill (Note 5)	9,765	9,900
Other intangible assets, net (Note 5)	3,597	3,619
Other assets	922	916
<b>TOTAL ASSETS</b>	<b>\$37,418</b>	<b>\$37,670</b>

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (Continued)  
(in millions of dollars, except share data)  
(Unaudited)

	March 31, 2013	December 31, 2012	
<b>LIABILITIES</b>			
Short-term borrowings (Note 12)	\$1,539	\$2,419	
Current portion of long-term debt (Note 12)	3,263	2,781	
Accounts payable	967	1,103	
Accrued liabilities:			
Marketing and selling	472	527	
Taxes, except income taxes	4,306	5,350	
Employment costs	797	896	
Dividends payable	1,405	1,418	
Other	857	952	
Income taxes	783	1,456	
Deferred income taxes	120	114	
Total current liabilities	14,509	17,016	
Long-term debt (Note 12)	20,796	17,639	
Deferred income taxes	1,873	1,875	
Employment costs	2,483	2,574	
Other liabilities	489	419	
Total liabilities	40,150	39,523	
Contingencies (Note 10)			
Redeemable noncontrolling interest (Note 7)	1,323	1,301	
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>			
Common stock, no par value (2,109,316,331 shares issued in 2013 and 2012)	—	—	
Additional paid-in capital	1,266	1,334	
Earnings reinvested in the business	25,800	25,076	
Accumulated other comprehensive losses	(3,720)	(3,604)	)
	23,346	22,806	
Less: cost of repurchased stock (470,084,480 and 455,703,347 shares in 2013 and 2012, respectively)	27,660	26,282	
Total PMI stockholders' deficit	(4,314)	(3,476)	)
Noncontrolling interests	259	322	
Total stockholders' deficit	(4,055)	(3,154)	)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$37,418</b>	<b>\$37,670</b>	

See notes to condensed consolidated financial statements.



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Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Earnings  
 (in millions of dollars, except per share data)  
 (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net revenues	\$18,527	\$18,022
Cost of sales	2,489	2,442
Excise taxes on products	10,943	10,574
Gross profit	5,095	5,006
Marketing, administration and research costs	1,681	1,571
Asset impairment and exit costs (Note 2)	3	8
Amortization of intangibles	24	24
Operating income	3,387	3,403
Interest expense, net	236	213
Earnings before income taxes	3,151	3,190
Provision for income taxes	933	958
Net earnings	2,218	2,232
Net earnings attributable to noncontrolling interests	93	71
Net earnings attributable to PMI	\$2,125	\$2,161
Per share data (Note 8):		
Basic earnings per share	\$1.28	\$1.25
Diluted earnings per share	\$1.28	\$1.25
Dividends declared	\$0.85	\$0.77

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Earnings  
 (in millions of dollars)  
 (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net earnings	\$2,218	\$2,232
Other comprehensive earnings (losses), net of income taxes:		
Currency translation adjustments, net of income taxes of (\$28) in 2013 and \$22 in 2012	(234	) 461
Change in net loss and prior service cost:		
Amortization of net losses, prior service costs and net transition costs, net of income taxes of (\$14) in 2013 and (\$12) in 2012	59	38
Change in fair value of derivatives accounted for as hedges:		
Gains transferred to earnings, net of income taxes of \$4 in 2013 and \$1 in 2012	(31	) (10
Gains recognized, net of income taxes of (\$13) in 2013 and (\$5) in 2012	96	46
Total other comprehensive (losses) earnings	(110	) 535
Total comprehensive earnings	2,108	2,767
Less comprehensive earnings attributable to:		
Noncontrolling interests	53	61
Redeemable noncontrolling interest	46	49
Comprehensive earnings attributable to PMI	\$2,009	\$2,657

See notes to condensed consolidated financial statements



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Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Stockholders' (Deficit) Equity  
 for the Three Months Ended March 31, 2013 and 2012  
 (in millions of dollars, except per share amounts)  
 (Unaudited)

	PMI Stockholders' (Deficit) Equity							
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Loss	Cost of Repurchased Stock	Noncontrolling Interests	Total	
Balances, January 1, 2012	\$—	\$ 1,235	\$ 21,757	\$ (2,863 )	\$ (19,900 )	\$ 322	\$ 551	
Net earnings			2,161			29	2,190	(a)
Other comprehensive earnings, net of income taxes				496		32	528	(a)
Issuance of stock awards and exercise of stock options		(60 )			112		52	
Dividends declared (\$0.77 per share)			(1,326 )				(1,326 )	
Payments to noncontrolling interests						(117 )	(117 )	
Common stock repurchased					(1,500 )		(1,500 )	
Balances, March 31, 2012	\$—	\$ 1,175	\$ 22,592	\$ (2,367 )	\$ (21,288 )	\$ 266	\$ 378	
Balances, January 1, 2013	\$—	\$ 1,334	\$ 25,076	\$ (3,604 )	\$ (26,282 )	\$ 322	\$(3,154)	
Net earnings			2,125			49	2,174	(a)
Other comprehensive earnings (losses), net of income taxes				(116 )		4	(112 )	(a)
Issuance of stock awards and exercise of stock options		(68 )			122		54	
Dividends declared (\$0.85 per share)			(1,401 )				(1,401 )	
Payments to noncontrolling interests						(116 )	(116 )	
Common stock repurchased					(1,500 )		(1,500 )	
Balances, March 31, 2013	\$—	\$ 1,266	\$ 25,800	\$ (3,720 )	\$ (27,660 )	\$ 259	\$(4,055)	

(a) For the three months ended March 31, 2012, net earnings attributable to noncontrolling interests exclude \$42 million of earnings related to the redeemable noncontrolling interest, which is reported outside of the equity section in the condensed consolidated balance sheet. Other comprehensive earnings, net of income taxes, also exclude \$7 million of net currency translation adjustment gains related to the redeemable noncontrolling interest at March 31, 2012. For the three months ended March 31, 2013, net earnings attributable to noncontrolling interests exclude \$44 million of earnings related to the redeemable noncontrolling interest, which is reported outside of the equity section in the condensed consolidated balance sheet. Other comprehensive earnings, net of income taxes, also exclude \$2 million of net currency translation adjustment gains related to the redeemable noncontrolling interest at March 31, 2013.

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows  
 (in millions of dollars)  
 (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net earnings	\$2,218	\$2,232
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	222	227
Deferred income tax provision	79	51
Asset impairment and exit costs, net of cash paid	(2	) (5
Cash effects of changes, net of the effects from acquired and divested companies:		
Receivables, net	(67	) (151
Inventories	806	1,036
Accounts payable	1	23
Income taxes	(734	) (53
Accrued liabilities and other current assets	(1,260	) (1,543
Pension plan contributions	(25	) (32
Other	125	113
Net cash provided by operating activities	1,363	1,898
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Capital expenditures	(240	) (227
Other	18	3
Net cash used in investing activities	(222	) (224

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows (Continued)  
 (in millions of dollars)  
 (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Short-term borrowing activity by original maturity:		
Net (repayments) issuances - maturities of 90 days or less	\$(947)	) \$2,833
Issuances - maturities longer than 90 days	93	473
Repayments - maturities longer than 90 days	(25)	) (742)
Long-term debt proceeds	4,569	1,220
Long-term debt repaid	(739)	) (1,667)
Repurchases of common stock	(1,453)	) (1,427)
Dividends paid	(1,414)	) (1,338)
Other	(137)	) (135)
Net cash used in financing activities	(53)	) (783)
Effect of exchange rate changes on cash and cash equivalents	(90)	) 135
Cash and cash equivalents:		
Increase	998	1,026
Balance at beginning of period	2,983	2,550
Balance at end of period	\$3,981	\$3,576

See notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements  
(Unaudited)

## Note 1. Background and Basis of Presentation:

## Background

Philip Morris International Inc. is a holding company incorporated in Virginia, U.S.A., whose subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other tobacco products in markets outside of the United States of America. Throughout these financial statements, the term "PMI" refers to Philip Morris International Inc. and its subsidiaries.

## Basis of Presentation

The interim condensed consolidated financial statements of PMI are unaudited. These interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and such principles are applied on a consistent basis. It is the opinion of PMI's management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. Net revenues and net earnings attributable to PMI for any interim period are not necessarily indicative of results that may be expected for the entire year.

These statements should be read in conjunction with the audited consolidated financial statements and related notes, which appear in PMI's Annual Report to Shareholders and which are incorporated by reference into PMI's Annual Report on Form 10-K for the year ended December 31, 2012.

## Note 2. Asset Impairment and Exit Costs:

Pre-tax asset impairment and exit costs consisted of the following:

(in millions)	For the Three Months Ended March 31,	
	2013	2012
Separation programs:		
Latin America & Canada	\$—	\$8
Total separation programs	—	8
Contract termination charges:		
Asia	3	—
Total contract termination charges	3	—
Asset impairment and exit costs	\$3	\$8

## Exit Costs

## Separation Programs

PMI recorded pre-tax separation program charges of \$8 million for the three months ended March 31, 2012. These charges related to severance costs for a factory restructuring.

## Contract Termination Charges

During the three months ended March 31, 2013, PMI recorded exit costs of \$3 million related to the termination of distribution agreements.

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Philip Morris International Inc. and Subsidiaries  
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## Movement in Exit Cost Liabilities

The movement in exit cost liabilities for the three months ended March 31, 2013 was as follows:

(in millions)

Liability balance, January 1, 2013	\$20
Charges	3
Cash spent	(5 )
Currency/other	—
Liability balance, March 31, 2013	\$18

Cash payments related to exit costs at PMI were \$5 million and \$13 million for the three months ended March 31, 2013 and 2012, respectively. Future cash payments for exit costs incurred to date are expected to be approximately \$18 million, and will be substantially paid by the end of 2013.

## Note 3. Stock Plans:

In May 2012, PMI's stockholders approved the Philip Morris International Inc. 2012 Performance Incentive Plan (the "2012 Plan"). The 2012 Plan replaced the 2008 Performance Incentive Plan (the "2008 Plan") and, as a result, there will be no additional grants under the 2008 Plan. Under the 2012 Plan, PMI may grant to eligible employees restricted stock, restricted stock units and deferred stock units, performance-based cash incentive awards and performance-based equity awards. Up to 30 million shares of PMI's common stock may be issued under the 2012 Plan. At March 31, 2013, shares available for grant under the 2012 Plan were 27,216,430.

In 2008, PMI adopted the Philip Morris International Inc. 2008 Stock Compensation Plan for Non-Employee Directors (the "Non-Employee Directors Plan"). A non-employee director is defined as a member of the PMI Board of Directors who is not a full-time employee of PMI or of any corporation in which PMI owns, directly or indirectly, stock possessing at least 50% of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation. Up to 1 million shares of PMI common stock may be awarded under the Non-Employee Directors Plan. At March 31, 2013, shares available for grant under the plan were 798,801.

During the three months ended March 31, 2013, PMI granted 2.8 million shares of deferred stock awards to eligible employees at a weighted-average grant date fair value of \$88.43 per share. During the three months ended March 31, 2012, PMI granted 3.2 million shares of deferred stock awards to eligible employees at a weighted-average grant date fair value of \$79.42 per share. PMI recorded compensation expense related to stock awards of \$72 million and \$77 million during the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, PMI had \$386 million of total unrecognized compensation cost related to non-vested restricted and deferred stock awards. The cost is recognized over the original restriction period of the awards, which is typically three or more years after the date of the award, subject to earlier vesting on death or disability or normal retirement, or separation from employment by mutual agreement after reaching age 58.

During the three months ended March 31, 2013, 2.9 million shares of PMI restricted stock and deferred stock awards vested. The grant date fair value of all the vested shares was approximately \$140 million. The total fair value of restricted stock and deferred stock awards that vested during the three months ended March 31, 2013 was approximately \$265 million.

## Note 4. Benefit Plans:

Pension coverage for employees of PMI's subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. In addition, PMI provides health care and other benefits to substantially all U.S. retired employees and certain non-U.S. retired employees. In general, health care

benefits for non-U.S. retired employees are covered through local government plans.

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Philip Morris International Inc. and Subsidiaries  
 Notes to Condensed Consolidated Financial Statements  
 (Unaudited)

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

(in millions)	U.S. Plans		Non-U.S. Plans	
	For the Three Months Ended		For the Three Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Service cost	\$2			