

MOLSON COORS BREWING CO
Form 10-Q
August 03, 2011

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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 June 25, 2011

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: 1-14829

Molson Coors Brewing Company

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

84-0178360

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

1225 17th Street, Denver, Colorado, USA

1555 Notre Dame Street East, Montréal, Québec, Canada

(Address of principal executive offices)

80202

H2L 2R5

(Zip Code)

303-927-2337 (Colorado)

514-521-1786 (Québec)

(Registrant's telephone number, including area code)

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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) 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
---	--	---	--

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 registrant's classes of common stock, as of July 28, 2011:

Class A Common Stock 2,583,694 shares
Class B Common Stock 162,501,561 shares

Exchangeable shares:

As of July 28, 2011, the following number of exchangeable shares was outstanding for Molson Coors Canada, Inc.:

Class A Exchangeable shares 2,939,708 shares
Class B Exchangeable shares 19,261,002 shares

These Class A and Class B exchangeable shares offer substantially the same economic and voting rights as the respective classes of common shares of the registrant. This is achieved via the following structure: The registrant has outstanding one share of special Class A voting stock, through which the holders of Class A exchangeable shares and Class B exchangeable shares of Molson Coors Canada Inc. (a subsidiary of the registrant), respectively, may exercise their voting rights with respect to the registrant. The special Class A and Class B voting stock are entitled to one vote for each of the exchangeable share classes, respectively, excluding shares held by the registrant or its subsidiaries, and generally vote together with the Class A common stock and Class B common stock, respectively, on all matters on which the Class A common stock and Class B common stock are entitled to vote. The trustee holder of the special Class A voting stock and the special Class B voting stock has the right to cast a number of votes equal to the number of then outstanding Class A exchangeable shares and Class B exchangeable shares, respectively.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES

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Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995.

Statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements, and include, but are not limited to, statements under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Outlook for 2011" relating to overall volume trends, consumer preferences, pricing trends, industry forces, cost reduction strategies, anticipated results, anticipated synergies, expectations for funding future capital expenditures and operations, debt service capabilities, shipment levels and profitability, market share and the sufficiency of capital resources. In addition, statements that we make in this report that are not statements of historical fact may also be forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," "anticipate," "seek," "estimate," "outlook," "trends," "future benefits," "strategies," and variations of such words and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to be materially different from those indicated (both favorably and unfavorably). These risks and uncertainties include, but are not limited to those described under the heading "Risk Factors," elsewhere throughout this report, and those described from time to time in our future reports filed with the Securities and Exchange Commission, including in our Form 10-K for the year ended December 25, 2010. Caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Sales	\$ 1,383.1	\$ 1,282.6	\$ 2,380.4	\$ 2,229.6
Excise taxes	(449.5)	(399.3)	(756.4)	(685.3)
Net sales	933.6	883.3	1,624.0	1,544.3
Cost of goods sold	(523.9)	(474.8)	(951.1)	(879.2)
Gross profit	409.7	408.5	672.9	665.1
Marketing, general and administrative expenses	(272.5)	(261.2)	(510.9)	(498.7)
Special items, net	(11.0)	(15.8)	(11.0)	(18.4)
Equity income in MillerCoors	171.8	163.6	273.0	254.6
Operating income (loss)	298.0	295.1	424.0	402.6
Interest income (expense), net	(27.7)	(25.4)	(54.5)	(49.8)
Other income (expense), net	(1.8)	21.4	(2.5)	12.8
Income (loss) from continuing operations before income taxes	268.5	291.1	367.0	365.6
Income tax benefit (expense)	(43.2)	(52.2)	(59.3)	(63.9)
Net Income (loss) from continuing operations	225.3	238.9	307.7	301.7
Income (loss) from discontinued operations, net of tax	(1.5)	(0.6)	(1.2)	42.0
Net income (loss) including noncontrolling interests	223.8	238.3	306.5	343.7
Less: Net (income) loss attributable to noncontrolling interests	(1.0)	(1.1)	(0.8)	(1.9)
Net income (loss) attributable to Molson Coors Brewing Company	\$ 222.8	\$ 237.2	\$ 305.7	\$ 341.8
Basic net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	\$ 1.20	\$ 1.28	\$ 1.64	\$ 1.61
From discontinued operations	(0.01)		(0.01)	0.23
Basic net income per share	\$ 1.19	\$ 1.28	\$ 1.63	\$ 1.84
Diluted net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	\$ 1.19	\$ 1.27	\$ 1.63	\$ 1.60
From discontinued operations	(0.01)		(0.01)	0.23
Diluted net income per share	\$ 1.18	\$ 1.27	\$ 1.62	\$ 1.83

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Weighted average shares basic	187.1	185.7	187.0	185.6
Weighted average shares diluted	188.8	187.4	188.8	187.2
Amounts attributable to Molson Coors Brewing Company				
Net income (loss) from continuing operations	\$ 224.3	\$ 237.8	\$ 306.9	\$ 299.8
Income (loss) from discontinued operations, net of tax	(1.5)	(0.6)	(1.2)	42.0
Net income (loss) attributable to Molson Coors Brewing Company	\$ 222.8	\$ 237.2	\$ 305.7	\$ 341.8

See notes to unaudited condensed consolidated financial statements.

Table of Contents**MOLSON COORS BREWING COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN MILLIONS)****(UNAUDITED)**

	June 25, 2011	As of December 25, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,184.2	\$ 1,217.6
Accounts receivable, net	629.6	570.8
Other receivables, net	224.2	158.7
Inventories:		
Finished, net	159.3	134.3
In process	18.7	16.6
Raw materials	35.8	32.1
Packaging materials, net	9.4	12.0
Total inventories, net	223.2	195.0
Other assets, net	102.9	78.2
Deferred tax assets	0.3	
Discontinued operations	0.3	0.6
Total current assets	2,364.7	2,220.9
Properties, net	1,407.9	1,388.7
Goodwill	1,553.8	1,489.1
Other intangibles, net	4,754.5	4,655.1
Investment in MillerCoors	2,680.0	2,574.1
Deferred tax assets	170.5	188.2
Notes receivable, net	42.4	43.0
Other assets	130.3	138.5
Total assets	\$ 13,104.1	\$ 12,697.6
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 229.5	\$ 268.2
Accrued expenses and other liabilities	853.4	804.6
Derivative hedging instruments	451.5	26.4
Deferred tax liabilities	248.4	219.6
Current portion of long-term debt and short-term borrowings	50.4	1.1
Discontinued operations	14.6	14.0
Total current liabilities	1,847.8	1,333.9
Long-term debt	1,951.1	1,959.6
Pension and post-retirement benefits	463.9	458.6
Derivative hedging instruments	4.7	404.8
Deferred tax liabilities	416.8	466.7
Unrecognized tax benefits	82.2	80.8
Other liabilities	125.4	126.4
Discontinued operations	25.5	24.2
Total liabilities	4,917.4	4,855.0
Commitments and contingencies (Note 15)		

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Molson Coors Brewing Company stockholders' equity

Capital stock:			
Preferred stock, non-voting, no par value (authorized: 25.0 shares; none issued)			
Class A common stock, voting, \$0.01 par value per share (authorized: 500.0 shares; issued and outstanding: 2.6 shares and 2.6 shares at June 25, 2011 and December 25, 2010, respectively)			
Class B common stock, non-voting, \$0.01 par value per share (authorized: 500.0 shares; issued and outstanding: 162.4 shares and 162.0 shares at June 25, 2011 and December 25, 2010, respectively)			
	1.6		1.6
Class A exchangeable shares, no par value (issued and outstanding: 2.9 shares and 3.0 shares at June 25, 2011 and December 25, 2010, respectively)			
	110.5		111.2
Class B exchangeable shares, no par value (issued and outstanding: 19.3 shares and 19.2 shares at June 25, 2011 and December 25, 2010, respectively)			
	725.7		725.0
Paid-in capital			
	3,562.0		3,548.4
Retained earnings			
	3,435.1		3,241.5
Accumulated other comprehensive income			
	308.9		171.1
Total Molson Coors Brewing Company stockholders' equity		8,143.8	7,798.8
Noncontrolling interests		42.9	43.8
Total equity		8,186.7	7,842.6
Total liabilities and equity		\$ 13,104.1	\$ 12,697.6

See notes to unaudited condensed consolidated financial statements.

Table of Contents**MOLSON COORS BREWING COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN MILLIONS)****(UNAUDITED)**

	Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	\$ 306.5	\$ 343.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107.1	104.1
Share-based compensation	14.4	15.6
Loss on sale or impairment of properties and intangibles	8.6	13.7
Deferred income taxes	1.8	21.8
Equity income in MillerCoors	(273.0)	(254.6)
Distributions from MillerCoors	273.0	254.6
Equity in net income of other unconsolidated affiliates	(9.9)	(5.9)
Distributions from other unconsolidated affiliates	21.7	10.1
Excess tax benefits from share-based compensation	(0.9)	(0.6)
Change in current assets and liabilities and other	(178.7)	(54.7)
(Gain) loss from discontinued operations	1.2	(42.0)
Net cash provided by operating activities	271.8	405.8
Cash flows from investing activities:		
Additions to properties	(72.5)	(61.6)
Proceeds from sales of properties and intangible assets	1.2	2.0
Acquisition of businesses, net of cash acquired	(41.3)	(34.2)
Change in restricted cash balances	2.7	
Payment on discontinued operations		(96.0)
Investment in MillerCoors	(470.4)	(623.7)
Return of capital from MillerCoors	376.4	569.3
Proceeds from settlements of derivative instruments	15.4	
Investment in and advances to an unconsolidated affiliate	(5.7)	(1.6)
Trade loan repayments from customers	7.6	8.3
Trade loans advanced to customers	(5.2)	(5.0)
Net cash used in investing activities	(191.8)	(242.5)
Cash flows from financing activities:		
Exercise of stock options under equity compensation plans	6.3	7.1
Excess tax benefits from share-based compensation	0.9	0.6
Dividends paid	(112.1)	(96.7)
Dividends paid to noncontrolling interests holders	(1.5)	(0.9)
Debt issuance costs	(2.2)	
Proceeds from short-term borrowings	6.8	3.1
Payments on short-term borrowings	(15.3)	(8.1)
Net (payments) proceeds from revolving credit facilities	2.6	
Change in overdraft balances and other	(10.8)	(3.1)
Net cash used in financing activities	(125.3)	(98.0)

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Cash and cash equivalents:

Net increase (decrease) in cash and cash equivalents	(45.3)	65.3
Effect of foreign exchange rate changes on cash and cash equivalents	11.9	(0.9)
Balance at beginning of year	1,217.6	734.2
Balance at end of period	\$ 1,184.2	\$ 798.6

See notes to unaudited condensed consolidated financial statements.

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**MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation and Summary of Significant Accounting Policies

Unless otherwise noted in this report, any description of "we", "us" or "our" includes Molson Coors Brewing Company ("MCBC" or the "Company"), principally a holding company, and its operating subsidiaries: MillerCoors LLC ("MillerCoors") which is accounted for by us under the equity method of accounting, Molson Coors Brewing Company (UK) Limited ("MCBC-UK"), Molson Coors Canada ("MCC") and our other operating entities as further described in Note 1 of the Notes to the Audited Consolidated Financial Statements (the "Notes") included in our Annual Report on Form 10-K for the year ended December 25, 2010 ("Annual Report").

Unless otherwise indicated, information in this report is presented in U.S. dollars ("USD" or "\$").

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments which are necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Such unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

These unaudited condensed consolidated interim financial statements should be read in conjunction with our Annual Report and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes. The results of operations for the thirteen and twenty-six week periods ended June 25, 2011 are not necessarily indicative of the results that may be achieved for the full fiscal year.

During the fourth quarter of 2010, we changed the classification of returnable bottles and pallets to noncurrent assets within Properties, net which were previously classified as current assets within Inventories Packaging Materials, and have applied the classification change retrospectively in accordance with U.S. GAAP. This impacted the condensed consolidated statements of cash flows for the twenty-six weeks ended June 26, 2010 as discussed in Note 22 of the Notes.

We follow a 52/53 week fiscal reporting calendar. The second fiscal quarter of 2011 and 2010 consisted of thirteen weeks ended on June 25, 2011 and June 26, 2010, respectively. The first half of 2011 and 2010 consisted of twenty-six weeks ended on June 25, 2011 and June 26, 2010, respectively. Fiscal year 2011 consists of 53 weeks ending on December 31, 2011 and fiscal year 2010 consisted of the 52 weeks ended December 25, 2010.

Unless otherwise indicated, second quarter refers to the thirteen week periods ended June 25, 2011 and June 26, 2010 and first half refers to the twenty-six week periods ended June 25, 2011 and June 26, 2010.

MillerCoors follows a monthly reporting calendar. The second quarter and first half of 2011 and 2010 consisted of three months and six months ended June 30, 2011 and June 30, 2010, respectively.

Our significant accounting policies are presented in Note 1 of the Notes and did not significantly change in the second quarter or first half of 2011.

Consistent with the disclosure in the Annual Report, these significant accounting policies include our treatment of the allowance for credit losses on our MCBC-UK trade loan portfolio. This allowance is maintained to provide for probable loan losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred at the balance sheet date. We establish our allowance through a provision for loan losses charged against earnings and recorded in marketing, general & administrative expenses. Loan balances that are written off are recorded against the

Table of Contents**1. Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

allowance as a write-off. A rollforward of the allowance for the quarter ended June 25, 2011 is as follows (in millions):

Balance at December 25, 2010	\$ 9.1
Provision for loan loss	(0.6)
Write-offs	(0.5)
Foreign currency and other adjustments	0.2
Balance at June 25, 2011	\$ 8.2

2. New Accounting Pronouncements**Adoption of New Accounting Pronouncements***Goodwill Impairment Analysis*

In December 2010, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to the evaluation of goodwill impairment testing for reporting units with zero or negative carrying amounts. Upon adoption of the guidance and annually thereafter, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting units. The guidance was effective for our first quarter 2011. The adoption of this guidance did not impact our financial results.

New Accounting Pronouncements Not Yet Adopted*Fair Value Measurement*

In May 2011, the FASB issued authoritative guidance related to fair value measurement and disclosure requirements. The new guidance results in a consistent definition of fair value and convergence between U.S. GAAP and International Financial Reporting Standards ("IFRS") on both how to measure fair value and on what disclosures to provide about fair value measurements. The guidance is effective for our quarter ending March 31, 2012. We are currently evaluating the impact that this guidance may have on the reporting of our financial results.

Presentation of Other Comprehensive Income

In June 2011, the FASB issued authoritative guidance related to the presentation of other comprehensive income. Upon adoption of the guidance, an entity has the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The guidance is effective for our quarter ending March 31, 2012. The impact of guidance is limited to a change in the presentation of our results.

3. Segment Reporting

Our reportable operating segments consist of Canada, the United States ("U.S.") and the United Kingdom ("U.K.") and our non-reportable operating segment and other business activities include Molson Coors International ("MCI") and Corporate.

Table of Contents**3. Segment Reporting (Continued)**

The following table sets forth net sales by segment:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Canada	\$ 564.7	\$ 541.8	\$ 958.5	\$ 932.0
U.K.	341.7	320.5	616.4	575.5
MCI and Corporate	28.5	21.0	50.4	36.8
Eliminations(1)	(1.3)		(1.3)	
Consolidated	\$ 933.6	\$ 883.3	\$ 1,624.0	\$ 1,544.3

(1)

Represents intersegment sales from the U.K. segment to the MCI segment.

Across each of our segments, no single customer accounted for more than 10% of our sales. Net sales represent sales to third-party external customers and affiliates. Intersegment revenues are eliminated in consolidation.

The following table sets forth income (loss) from continuing operations before income taxes by segment:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Canada	\$ 131.8	\$ 131.9	\$ 184.0	\$ 186.2
U.S.	171.8	163.6	273.0	254.6
U.K.	32.3	32.0	39.1	33.5
MCI and Corporate	(67.4)	(36.4)	(129.1)	(108.7)
Consolidated	\$ 268.5	\$ 291.1	\$ 367.0	\$ 365.6

The following table sets forth total assets by segment:

	As of	
	June 25, 2011	December 25, 2010
	(In millions)	
Canada	\$ 6,580.0	\$ 6,548.9
U.S.	2,680.0	2,574.1
U.K.	2,305.6	2,276.2
MCI and Corporate	1,538.2	1,297.8
Discontinued operations	0.3	0.6
Consolidated	\$ 13,104.1	\$ 12,697.6

4. Investments

The investments included within this footnote include both equity method and consolidated investments. Those entities identified as variable interest entities ("VIEs") have been evaluated to determine whether we are the primary beneficiary. The VIEs included under Consolidated Investments below are those for which we have concluded that we are the primary beneficiary and accordingly consolidate these entities. We have not provided any financial support to any of our VIEs during the quarter that we were not previously contractually obligated to provide.

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Authoritative guidance related to the consolidation of VIEs requires that we continually reassess whether we are the primary beneficiary of VIEs in which we have an interest. As such, the conclusion regarding the primary beneficiary status is subject to change and we continually evaluate circumstances that could require consolidation or deconsolidation.

Table of Contents**4. Investments (Continued)***Equity Investments**MillerCoors*

Summarized U.S. GAAP financial information for MillerCoors is as follows:

Condensed balance sheets

	As of	
	June 30, 2011	December 31, 2010
	(In millions)	
Current assets	\$ 1,053.3	\$ 815.9
Noncurrent assets	8,918.6	8,972.1
Total assets	\$ 9,971.9	\$ 9,788.0
Current liabilities	\$ 942.4	\$ 932.9
Noncurrent liabilities	1,216.2	1,273.4
Total liabilities	2,158.6	2,206.3
Noncontrolling interests	41.8	30.5
Interest attributable to shareholders'	7,771.5	7,551.2
Total liabilities and equity	\$ 9,971.9	\$ 9,788.0

Results of operations

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In millions)			
Net sales	\$ 2,132.3	\$ 2,134.1	\$ 3,831.4	\$ 3,835.0
Cost of goods sold	(1,268.8)	(1,284.8)	(2,331.8)	(2,363.4)
Gross profit	\$ 863.5	\$ 849.3	\$ 1,499.6	\$ 1,471.6
Operating income	\$ 406.4	\$ 396.8	\$ 645.1	\$ 609.3
Net income attributable to MillerCoors	\$ 398.7	\$ 391.2	\$ 633.4	\$ 599.8

The following represents MCBC's proportional share in net income attributable to MillerCoors reported under the equity method:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions, except percentages)			
Net income attributable to MillerCoors	\$ 398.7	\$ 391.2	\$ 633.4	\$ 599.8
MCBC economic interest	42%	42%	42%	42%
MCBC proportionate share of MillerCoors net income	167.4	164.3	266.0	251.9
Amortization of the difference between MCBC contributed cost basis and proportional share of the underlying equity in net assets of MillerCoors(1)	2.5	(0.6)	4.9	1.9
Share-based compensation adjustment(2)	1.9	(0.1)	2.1	0.8

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Equity income in MillerCoors	\$	171.8	\$	163.6	\$	273.0	\$	254.6
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(1)

Our net investment in MillerCoors is based on the carrying values of the net assets contributed to the joint venture which is less than our proportional share of underlying equity (42%) of MillerCoors (contributed by both Coors Brewing Company ("CBC") and Miller Brewing Company

Table of Contents**4. Investments (Continued)**

("Miller")) by approximately \$619 million. This difference is being amortized as additional equity income over the remaining useful lives of long-lived assets giving rise to the difference. For non-depreciable assets, such as goodwill, no adjustment is being recorded. This also includes the impact of impairments and other adjustments occurring since formation that affect the basis difference.

(2)

The net adjustment is to record all share-based compensation associated with pre-existing equity awards to be settled in Class B common stock held by former CBC employees now employed by MillerCoors and to eliminate all share-based compensation impacts related to pre-existing SABMiller plc equity awards held by former Miller employees now employed by MillerCoors.

During the second quarter of 2011, we had \$9.5 million of sales of beer to MillerCoors and \$2.2 million of purchases of beer from MillerCoors. During the second quarter of 2010, we had \$10.7 million of sales of beer to MillerCoors and \$2.2 million of purchases of beer from MillerCoors. During the first half of 2011, we had \$17.5 million of sales of beer to MillerCoors and \$4.7 million of purchases of beer from MillerCoors. During the first half of 2010, we had \$19.2 million of sales of beer to MillerCoors and \$4.2 million of purchases of beer from MillerCoors.

For the second quarter of 2011, we recorded \$2.0 million of service agreement and other charges to MillerCoors and \$1.9 million of service agreement costs from MillerCoors. For the second quarter of 2010, we recorded \$1.5 million of service agreement and other charges to MillerCoors and \$0.6 million of service agreement costs from MillerCoors. For the first half of 2011, we recorded \$3.4 million of service agreement and other charges to MillerCoors and \$2.1 million of service agreement costs from MillerCoors. For the first half of 2010, we recorded \$2.3 million of service agreement and other charges to MillerCoors and \$1.0 million of service agreement costs from MillerCoors.

As of June 25, 2011 and December 25, 2010, we had \$2.2 million and \$1.3 million, respectively, of net receivables due from MillerCoors, included within Accounts receivable, net, related to the activities mentioned above.

Consolidated Investments

The following summarizes the assets of our consolidated VIEs (including noncontrolling interests). The amounts below exclude receivables from us. None of our consolidated VIEs held debt as of June 25, 2011 or December 25, 2010.

	As of	
	June 25, 2011	December 25, 2010
	Total assets	Total assets
	(In millions)	
Grolsch	\$ 14.8	\$ 14.1
Cobra	\$ 31.4	\$ 32.7

The following summarizes the results of operations of our consolidated VIEs (including noncontrolling interests).

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	June 25, 2011		June 26, 2010		June 25, 2011		June 26, 2010	
	Revenues	Pre-tax income	Revenues	Pre-tax income	Revenues	Pre-tax income	Revenues	Pre-tax income
	(In millions)							
Grolsch(1)	\$ 7.7	\$ 1.9	\$ 9.0	\$ 1.3	\$ 12.9	\$ 2.6	\$ 15.7	\$ 2.3
Cobra	\$ 10.3	\$ 2.1	\$ 8.6	\$ 1.9	\$ 18.6	\$ 3.1	\$ 17.9	\$ 3.3

(1)

Substantially all such sales for Grolsch are made to us and as such, are eliminated in consolidation.

Table of Contents**5. Share-Based Payments**

During the first half of 2011 and 2010, we recognized share-based compensation expense related to the following Class B common stock awards to certain directors, officers and other eligible employees, pursuant to the Molson Coors Brewing Company Incentive Compensation Plan ("Incentive Compensation Plan"): restricted stock units ("RSU"), deferred stock units ("DSU"), performance units ("PU"), stock options and stock-only stock appreciation rights ("SOSAR").

The following table summarizes components of the share-based compensation expense:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Stock options and SOSARs				
Pre-tax compensation expense	\$ 1.1	\$ 0.9	\$ 3.9	\$ 4.7
Tax benefit	(0.3)	(0.2)	(1.1)	(1.3)
After-tax compensation expense	\$ 0.8	\$ 0.7	\$ 2.8	\$ 3.4
RSUs and DSUs				
Pre-tax compensation expense	\$ 3.1	\$ 4.3	\$ 5.4	\$ 8.3
Tax benefit	(0.8)	(1.1)	(1.3)	(2.2)
After-tax compensation expense	\$ 2.3	\$ 3.2	\$ 4.1	\$ 6.1
PU				
Pre-tax compensation expense	\$ 2.0	\$ 2.3	\$ 5.0	\$ 3.7
Tax benefit	(0.6)	(0.6)	(1.5)	(0.9)
After-tax compensation expense	\$ 1.4	\$ 1.7	\$ 3.5	\$ 2.8
Total after-tax compensation expense	\$ 4.5	\$ 5.6	\$ 10.4	\$ 12.3

During the first half of 2011, we granted 0.7 million stock options, 0.2 million RSUs and 0.6 million PUs, all of which were outstanding as of June 25, 2011.

The mark-to-market share-based compensation expense before tax, related to our share-based awards granted to former CBC employees now employed by MillerCoors, recorded during the second quarter and first half of 2011, was a \$0.1 million expense and \$0.1 million benefit, respectively. For the second quarter and first half of 2010, the amounts were expenses of \$0.7 million and \$1.1 million, respectively. These amounts are included in the table above.

As of June 25, 2011, there was \$34.9 million of total unrecognized pre-tax compensation expense related to non-vested shares from share-based compensation arrangements granted under the Incentive Compensation Plan. This compensation expense is expected to be recognized over a weighted-average period of approximately 1.2 years.

The following table represents the summary of stock options and SOSARs outstanding as of June 25, 2011, and the activity during the first half of 2011:

	Outstanding options	Weighted-average exercise price per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
	(In millions, except per share amounts and years)			
Outstanding as of December 25, 2010	6.8	\$ 37.92	4.89	\$ 91.6
Granted	0.7	\$ 44.24		

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Exercised	(0.2)	\$	36.24			
Forfeited	(0.1)	\$	43.42			
Outstanding as of						
June 25, 2011	7.2	\$	38.53	4.74	\$	49.2
Exercisable at						
June 25, 2011	5.9	\$	37.38	3.78	\$	48.2

Table of Contents**5. Share-Based Payments (Continued)**

The total intrinsic value of options exercised during the first half of 2011 and 2010 was \$2.1 million and \$2.2 million, respectively. During the twenty-six weeks ended June 25, 2011, cash received from stock option exercises was \$6.3 million and the total net tax benefit to be realized for the tax deductions from these option exercises was \$0.6 million.

The following table represents non-vested RSUs, DSUs and PUs as of June 25, 2011, and the activity during the first half of 2011:

	RSUs and DSUs		PUs	
	Units	Weighted-average grant date fair value per unit (In millions, except per unit amounts)	Units	Weighted-average grant date fair value per unit (In millions, except per unit amounts)
Non-vested as of December 25, 2010	0.8	\$ 49.41	2.2	\$ 9.45
Granted	0.2	\$ 40.87	0.6	\$ 13.51
Vested	(0.3)	\$ 53.59	(0.7)	\$ 6.98
Forfeited		\$	(0.1)	\$ 11.33
Non-vested as of June 25, 2011	0.7	\$ 42.97	2.0	\$ 11.87

The fair values of each option granted in the first half of 2011 and 2010, respectively, were determined on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For the Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010
Risk-free interest rate	2.55%	2.95%
Dividend yield	2.52%	2.22%
Volatility range	25.26% - 28.11%	27.2% - 29.5%
Weighted-average volatility	26.37%	27.86%
Expected term (years)	4.0 - 7.7	5.0 - 7.0
Weighted-average fair market value	\$9.66	\$10.95

The risk-free interest rates utilized for periods throughout the contractual life of the options are based on a zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on historical volatility of our stock. The expected term of options is estimated based upon observations of historical employee option exercise patterns and trends. The range on the expected term results from separate groups of employees who exhibit different historical exercise behavior.

As of June 25, 2011, there were 3.7 million shares of our Class B common stock available for the issuance of stock options, SOSARs, RSUs, DSUs, PUs and performance share units under the Incentive Compensation Plan.

6. Unusual or Infrequent Items

We have incurred charges or recognized gains that we believe are not indicative of our normal, core operations. As such, we have separately classified these amounts as special operating items.

Table of Contents**6. Unusual or Infrequent Items (Continued)***Summary of Special Items*

The table below summarizes special items recorded by segment:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Canada				
Restructuring, exit and other related costs associated with the Edmonton and Montreal breweries(1)	\$ 0.6	\$ 0.2	\$ 0.6	\$ 0.9
Special termination benefits(2)	1.2	2.0	4.0	3.2
Flood insurance reimbursement(3)	0.7		0.1	
Software abandonment(4)		12.4		12.4
BRI Loan Guarantee Adjustment(5)	(2.0)		(2.0)	
Fixed asset adjustment(6)	7.6		7.6	
U.K.				
Restructuring charge(7)	2.4	0.3	2.7	1.2
Release of non-income-related tax reserve(8)		0.4	(2.5)	0.4
Other(9)				(0.3)
MCI and Corporate				
Costs associated with outsourcing and other strategic initiatives(10)	0.5	0.5	0.5	0.6
Total Special items, net	\$ 11.0	\$ 15.8	\$ 11.0	\$ 18.4

- (1) During the second quarter of 2011 and the first half of 2010, we recognized expenses for restructuring costs associated with employee terminations and impairment of assets at the Montreal and Edmonton breweries.
- (2) During the first half of 2011, we recognized a charge related to special termination benefits offered to eligible employees upon election for early retirement as CBAs were ratified with MCC impacting the Quebec Hourly Defined Benefit pension plan. Additionally, during the first quarter of 2011 and the first half of 2010, we recognized expenses for special termination benefits related to the Ontario-Atlantic Hourly Defined Benefit pension plan.
- (3) During the first half of 2011, we incurred expense in excess of insurance proceeds received related to flood damages at our Toronto offices.
- (4) During the second quarter of 2010, a capital asset write-off was recorded related to abandonment of sales support software, which had been under development, as a result of a change in strategic direction relative to the use of the software.
- (5) During the second quarter of 2011, we recognized a \$2.0 million gain resulting from a reduction of our guarantee of Brewers' Retail, Inc. ("BRI") debt obligations, which is discussed further in Note 15 "Commitments and Contingencies".
- (6) During the second quarter of 2011, we recognized a \$7.6 million loss related to the correction of an error in prior periods to reduce fixed assets in the Canada segment, resulting from the performance of a fixed asset count. The impact of the error and the related correction this year is not material to any prior annual or interim financial statements and is not material to the expected full year results for this fiscal year.
- (7)

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During the second quarter and first half of 2011 and 2010, we recognized employee termination costs related to supply chain restructuring activity and company-wide efforts to increase efficiency in certain operations, finance, information technology and human resource activities.

Table of Contents**6. Unusual or Infrequent Items (Continued)**

- (8) During 2009, we established a non-income-related tax reserve of \$10.4 million that was recorded as a special item. The amounts recorded in the first quarter of 2011 represents a release of a portion of this reserve.
- (9) During the first half of 2010, we recognized a gain due to the release of an accrual of \$0.3 million related to a potential repayment of a government grant.
- (10) During the second quarter of 2011 and the first half of 2010, we recognized costs associated with other strategic initiatives.

The table below summarizes the activity in the restructuring accruals:

	Severance and other employee-related costs		
	Canada	U.K.	Total
	(In millions)		
Balance at December 25, 2010	\$ 0.2	\$ 2.2	\$ 2.4
Charges incurred		2.7	2.7
Payments made	(0.1)	(0.9)	(1.0)
Balance at June 25, 2011	\$ 0.1	\$ 4.0	\$ 4.1

7. Other Income and Expense

The table below summarizes other income and expense:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Gain (loss) from Foster's swap and related financial instruments(1)	\$	\$ 21.9	\$ 0.8	\$ 15.0
Gain (loss) from other foreign exchange and derivative activity		(3.3)	(4.0)	(2.8)
Environmental reserve		0.1	(0.1)	(0.1)
Other, net		1.4	0.2	0.7
Other income (expense), net	\$ (1.8)	\$ 21.4	\$ (2.5)	\$ 12.8

- (1) During January of 2011, we settled the remaining Foster's swap and related financial instruments.

8. Discontinued Operations

In 2006, we sold our entire equity interest in our Brazilian unit, Cervejarias Kaiser Brasil S.A. ("Kaiser") to FEMSA Cerveza S.A. de C.V. ("FEMSA"). The terms of the sale agreement require us to indemnify FEMSA for exposures related to certain tax, civil and labor contingencies arising prior to FEMSA's purchase of Kaiser. In the second quarter of 2011 and 2010, we recognized losses of \$1.5 million and \$0.6 million, respectively, from discontinued operations associated with foreign exchange gains and losses related to indemnities we provided to FEMSA with regard to contingent tax and other liabilities. During the first half of 2011 and of 2010, we recognized a loss of \$1.2 million and a gain of \$42.0 million, respectively. We recognized a gain of \$42.6 million related to our settlement of a portion of our indemnity liabilities to FEMSA during the first quarter of 2010. See further discussion in Note 15 "Commitments and Contingencies."

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9. Income Tax

Our effective tax rates for the second quarters of 2011 and 2010 were approximately 16% and 18%, respectively.

Our tax rate is volatile and may fluctuate with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, changes in tax laws, and the movement of liabilities established for uncertain tax positions as statutes of limitations expire or positions are otherwise effectively settled. There are proposed or pending tax law changes in the U.S., U.K. and Canada that, if enacted, may impact our effective tax rate.

As of December 25, 2010, we had \$84.1 million of uncertain tax benefits. Since December 25, 2010, uncertain tax benefits increased by \$6.0 million. This addition is net of increases due to additional uncertain tax benefits and interest accrued for the current year and decreases primarily due to certain tax positions closing or being effectively settled, and payments made to tax authorities with regard to uncertain tax benefits during the second quarter of 2011. This results in a total uncertain tax benefit of \$90.1 million as of June 25, 2011.

We file income tax returns in most of the federal, state, and provincial jurisdictions in the U.S., U.K., and Canada. In the U.S., tax years through 2006 are closed, while exam years 2007 and 2008 have been effectively settled and only remain open pending finalization of an advanced pricing agreement. Tax years through fiscal year ended February 8, 2005 are closed or have been effectively settled through examination in Canada. Tax years through 2008 are closed or have been effectively settled through examination in the U.K.

10. Earnings per Share ("EPS")

Basic net income per share was computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share includes the additional dilutive effect of our potentially dilutive securities, which include stock options, SOSARs, RSUs, PUs, and DSUs, calculated using the treasury stock method.

Table of Contents**10. Earnings per Share ("EPS") (Continued)**

The following summarizes the effect of dilutive securities on diluted EPS:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Amounts attributable to MCBC				
Net income (loss) from continuing operations	\$ 224.3	\$ 237.8	\$ 306.9	\$ 299.8
Income (loss) from discontinued operations, net of tax	(1.5)	(0.6)	(1.2)	42.0
Net income (loss) attributable to MCBC	\$ 222.8	\$ 237.2	\$ 305.7	\$ 341.8
Weighted average shares for basic EPS	187.1	185.7	187.0	185.6
Effect of dilutive securities:				
Options and SOSARs	1.0	0.9	1.0	0.9
RSUs, PUs and DSUs	0.7	0.8	0.8	0.7
Weighted average shares for diluted EPS	188.8	187.4	188.8	187.2
Basic net income (loss) per share:				
Continuing operations attributable to MCBC	\$ 1.20	\$ 1.28	\$ 1.64	\$ 1.61
Discontinued operations attributable to MCBC	(0.01)		(0.01)	0.23
Net income attributable to MCBC	\$ 1.19	\$ 1.28	\$ 1.63	\$ 1.84
Diluted net income (loss) per share:				
Continuing operations attributable to MCBC	\$ 1.19	\$ 1.27	\$ 1.63	\$ 1.60
Discontinued operations attributable to MCBC	(0.01)		(0.01)	0.23
Net income attributable to MCBC	\$ 1.18	\$ 1.27	\$ 1.62	\$ 1.83
Dividends declared and paid per share	\$ 0.32	\$ 0.28	\$ 0.60	\$ 0.52

The following anti-dilutive securities were excluded from the computation of the effect of dilutive securities on diluted earnings per share:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(In millions)			
Stock options, SOSARs and RSUs(1)	0.7	1.3	0.6	1.0
Shares of Class B common stock issuable upon assumed conversion of the 2.5% Convertible Senior Notes(2)	10.7	10.5	10.7	10.5
Warrants to issue shares of Class B common stock(2)	10.7	10.5	10.7	10.5
	22.1	22.3	22.0	22.0

(1) Exercise prices exceed the average market price of the common shares or are anti-dilutive due to the impact of the unrecognized compensation cost on the calculation of assumed proceeds in the application of the treasury stock method.

(2) We issued \$575 million of senior convertible notes in June 2007. The impact of a net share settlement of the conversion amount at maturity will begin to dilute earnings per share if and when our stock price reaches \$53.40. The impact of stock that could be issued to

settle share obligations we could have under the warrants we issued simultaneously with the convertible notes

Table of Contents**10. Earnings per Share ("EPS") (Continued)**

issuance will begin to dilute earnings per share when our stock price reaches \$68.36. The potential receipt of MCBC stock from counterparties under our purchased call options when and if our stock price is between \$53.40 and \$68.36 would be anti-dilutive and excluded from any calculations of earnings per share.

We have no outstanding equity share awards that contain non-forfeitable rights to dividends on unvested shares.

Subsequent to quarter end, we announced that our Board of Directors approved and authorized a new program to repurchase, effective immediately, up to \$1.2 billion of the Company's Class B common stock, with an expected program term of three years. Our Board of Directors may suspend, modify, or terminate the program at any time without prior notice.

11. Goodwill and Intangible Assets

The following summarizes the change in goodwill for the first half of 2011 (in millions):

Balance at December 25, 2010	\$ 1,489.1
Business acquisitions	19.3
Foreign currency translation	39.1
Historical correction to adjust properties, net	6.3
Balance at June 25, 2011	\$ 1,553.8

Goodwill was attributed to our segments as follows:

	As of	
	June 25, 2011	December 25, 2010
	(In millions)	
Canada	\$ 769.7	\$ 748.6
United Kingdom	765.5	731.4
MCI and Corporate	18.6	9.1
Consolidated	\$ 1,553.8	\$ 1,489.1

The following table presents details of our intangible assets, other than goodwill, as of June 25, 2011:

	Useful life (Years)	Gross	Accumulated amortization (In millions)	Net
Intangible assets subject to amortization:				
Brands	3 - 40	\$ 326.7	\$ (173.8)	\$ 152.9
Distribution rights	2 - 23	353.1	(233.9)	119.2
Patents and technology and distribution channels	3 - 10	35.8	(28.2)	7.6
Land use rights and other	2 - 42	6.4	(0.7)	5.7
Intangible assets not subject to amortization:				
Brands	Indefinite	3,430.3		3,430.3
Distribution networks	Indefinite	1,023.3		1,023.3
Other	Indefinite	15.5		15.5
Total		\$ 5,191.1	\$ (436.6)	\$ 4,754.5

Table of Contents**11. Goodwill and Intangible Assets (Continued)**

The following table presents details of our intangible assets, other than goodwill, as of December 25, 2010:

	Useful life (Years)	Gross	Accumulated amortization (In millions)	Net
Intangible assets subject to amortization:				
Brands	3 - 40	\$ 297.3	\$ (159.6)	\$ 137.7
Distribution rights	2 - 23	345.8	(221.6)	124.2
Patents and technology and distribution channels	3 - 10	34.6	(25.5)	9.1
Land use rights and other	2 - 42	6.2	(0.1)	6.1
Intangible assets not subject to amortization:				
Brands	Indefinite	3,359.2		3,359.2
Distribution networks	Indefinite	1,003.3		1,003.3
Other	Indefinite	15.5		15.5
Total		\$ 5,061.9	\$ (406.8)	\$ 4,655.1

The changes in the gross carrying amounts of intangibles from December 25, 2010 to June 25, 2011 are due to the impact of foreign exchange rates, as a significant amount of intangibles are denominated in foreign currencies, and the first quarter acquisition of Sharp's Brewery Ltd. in the U.K. (approximately \$20.4 million).

Based on foreign exchange rates as of June 25, 2011, the following is our estimated amortization expense related to intangible assets for the next five years:

	Amount (In millions)
2011 - remaining	\$ 19.4
2012	\$ 36.0
2013	\$ 35.0
2014	\$ 35.0
2015	\$ 32.4

Amortization expense of intangible assets was \$10.5 million and \$20.3 million for the second quarter and first half of 2011, respectively, and \$11.0 million and \$22.0 million for the second quarter and first half of 2010, respectively.

We are required to perform goodwill and indefinite-lived intangible asset impairment tests on at least an annual basis and more frequently in certain circumstances. We completed the required annual impairment testing during the third quarter of 2010 and determined that there were no impairments of goodwill or other indefinite-lived intangible assets. Regarding definite-lived intangibles, we continuously monitor the performance of the underlying asset for potential impairment. No impairment losses were included in the goodwill or intangible asset balances as of June 25, 2011 or December 25, 2010.

Table of Contents**12. Debt**

Our total long-term borrowings as of June 25, 2011 and December 25, 2010 were composed of the following:

	As of	
	June 25, 2011	December 25, 2010
	(In millions)	
Senior notes:		
\$850 million 6.375% notes due 2012	44.6	44.6
Canadian dollar ("CAD") 900 million 5.0% notes due 2015	910.4	892.6
\$575 million 2.5% convertible notes due 2013(1)(2)	575.0	575.0
CAD 500 million 3.95% Series A notes due 2017	505.8	495.9
Less: unamortized debt discounts and other(2)	(39.8)	(48.5)
Total long-term debt (including current portion)	1,996.0	1,959.6
Less: current portion of long-term debt	(44.9)	
Total long-term debt	\$ 1,951.1	\$ 1,959.6
Total fair value	\$ 2,130.5	\$ 2,137.6

- (1) The original conversion price for each \$1,000 aggregate principal amount of notes was \$54.76 per share of our Class B common stock, which represented a 25% premium above the stock price on the day of issuance of the notes and corresponded to the initial conversion ratio of 18.263 shares per each \$1,000 aggregate principal amount of notes. The conversion ratio and conversion price are subject to adjustments for certain events and provisions, as defined in the indenture. As of June 2011, our conversion price and ratio are \$53.40 and 18.7249 shares, respectively. Currently, the convertible debt's if-converted value does not exceed the principal.
- (2) During the second quarters of 2011 and 2010, we incurred additional non-cash interest expense of \$4.4 million and \$4.2 million, respectively. For the first half of 2011 and 2010, the amounts were \$8.7 million and \$8.4 million, respectively. We also incurred interest expense related to the 2.5% convertible coupon rate of \$3.6 million for both the second quarters of 2011 and 2010. For the first half of 2011 and 2010, the amount was \$7.2 million for both periods. The combination of non-cash and cash interest resulted in an effective interest rate of 5.91% and 6.00% for the second quarters of 2011 and 2010, respectively. The effective interest rates for the first half of 2011 and 2010 were 5.92% and 6.00%, respectively. As of June 25, 2011 and December 25, 2010, paid in capital in the equity section of our balance sheet includes \$103.9 million, (\$64.2 million net of tax), representing the equity component of the convertible debt. Further, as of June 25, 2011 and December 25, 2010, \$37.7 million and \$46.3 million respectively of the unamortized debt discount and other balance relates to our \$575 million convertible debt. We expect the unamortized discount to continue to amortize through 2013 resulting in non-cash interest expense of approximately \$17 million to \$18 million annually, thereby increasing the carrying value of the convertible debt to its \$575 million face value at maturity in July 2013. The remaining \$2.2 million as of June 25, 2011 and December 25, 2010, relates to unamortized debt premiums, discounts, and other on the additional debt balances.

Our short-term borrowings at June 25, 2011 and December 25, 2010 were \$5.5 million and \$1.1 million, respectively.

During the second quarter of 2011, we terminated our \$750 million revolving multicurrency bank credit facility, which was set to expire in August 2011. Additionally, in connection with this termination, we entered into an agreement for a 4-year revolving multicurrency credit facility of \$400 million, which provides a \$100 million sub-facility available for the issuance of letters of credit. We incurred \$2.2 million of issuance costs and up-front fees related to this agreement, which are amortized over the

Table of Contents**12. Debt (Continued)**

term of the facility. There were no outstanding borrowings on the \$400 million credit facility as of June 25, 2011.

Under the terms of some of our debt facilities, we must comply with certain restrictions. These restrictions include restrictions on debt secured by certain types of mortgages, certain threshold percentages of secured consolidated net tangible assets, and restrictions on certain types of sale lease-back transactions. As of June 25, 2011, we were in compliance with all of these restrictions.

13. Derivative Instruments and Hedging Activities

Our risk management and derivative accounting policies are presented in Note 18 of the Notes and did not significantly change during the first half of 2011.

Derivative Fair Value Measurements

We utilize market approaches to estimate the fair value of our derivative instruments by discounting anticipated future cash flows derived from the derivative's contractual terms and observable market interest, foreign exchange and commodity rates. The fair values of our derivatives also include credit risk adjustments to account for our counterparties' credit risk, as well as our own non-performance risk. As of June 25, 2011 and December 25, 2010 these adjustments resulted in deferred net gains in accumulated other comprehensive income ("AOCI") of \$2.5 million and \$2.7 million, respectively, as the fair value of our derivatives were in net liability positions at both period ends.

The table below summarizes our derivative assets and liabilities that were measured at fair value as of June 25, 2011 and December 25, 2010.

	Total carrying value at June 25, 2011	Fair Value Measurements at June 25, 2011 Using		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(In millions)		
Cross currency swaps	\$ (437.6)	\$	\$ (437.6)	\$
Foreign currency forwards	(16.7)		(16.7)	
Commodity swaps	0.5		0.5	