

ALTRIA GROUP, INC.
Form 10-Q
October 29, 2015

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 September 30, 2015

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 1-08940

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3260245
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6601 West Broad Street, Richmond, Virginia 23230
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (804) 274-2200

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 (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

At October 19, 2015, there were 1,960,679,441 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$1,907	\$3,321
Receivables	137	124
Inventories:		
Leaf tobacco	863	991
Other raw materials	187	200
Work in process	393	429
Finished product	511	420
	1,954	2,040
Deferred income taxes	1,143	1,143
Other current assets	370	250
Total current assets	5,511	6,878
Property, plant and equipment, at cost	4,866	4,755
Less accumulated depreciation	2,850	2,772
	2,016	1,983
Goodwill	5,285	5,285
Other intangible assets, net	12,033	12,049
Investment in SABMiller	5,442	6,183
Finance assets, net	1,295	1,614
Other assets	417	483
Total Assets	\$31,999	\$34,475

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Continued)
(in millions of dollars, except share and per share data)
(Unaudited)

	September 30, 2015	December 31, 2014
Liabilities		
Current portion of long-term debt	\$3	\$1,000
Accounts payable	307	416
Accrued liabilities:		
Marketing	766	618
Employment costs	146	186
Settlement charges	3,216	3,500
Other	1,019	925
Dividends payable	1,110	1,028
Total current liabilities	6,567	7,673
Long-term debt	12,918	13,693
Deferred income taxes	5,831	6,088
Accrued pension costs	903	1,012
Accrued postretirement health care costs	2,444	2,461
Other liabilities	420	503
Total liabilities	29,083	31,430
Contingencies (Note 10)		
Redeemable noncontrolling interest	35	35
Stockholders' Equity		
Common stock, par value \$0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,800	5,735
Earnings reinvested in the business	27,118	26,277
Accumulated other comprehensive losses	(3,157) (2,682
Cost of repurchased stock (845,281,876 shares at September 30, 2015 and 834,486,794 shares at December 31, 2014)	(27,809) (27,251
Total stockholders' equity attributable to Altria Group, Inc.	2,887	3,014
Noncontrolling interests	(6) (4
Total stockholders' equity	2,881	3,010
Total Liabilities and Stockholders' Equity	\$31,999	\$34,475
See notes to condensed consolidated financial statements.		

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

	For the Nine Months Ended September 30,	
	2015	2014
Net revenues	\$19,116	\$18,264
Cost of sales	5,733	5,799
Excise taxes on products	4,991	4,932
Gross profit	8,392	7,533
Marketing, administration and research costs	1,951	1,821
Changes to Mondelēz and PMI tax-related receivables/payables	41	5
Asset impairment and exit costs	4	(1)
Operating income	6,396	5,708
Interest and other debt expense, net	609	596
Loss on early extinguishment of debt	228	—
Earnings from equity investment in SABMiller	(546)	(753)
Earnings before income taxes	6,105	5,865
Provision for income taxes	2,110	2,031
Net earnings	3,995	3,834
Net earnings attributable to noncontrolling interests	(1)	—
Net earnings attributable to Altria Group, Inc.	\$3,994	\$3,834
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$2.03	\$1.93
Dividends declared	\$1.605	\$1.48
See notes to condensed consolidated financial statements.		

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

	For the Three Months Ended September 30,		
	2015	2014	
Net revenues	\$6,699	\$6,491	
Cost of sales	1,932	2,079	
Excise taxes on products	1,721	1,738	
Gross profit	3,046	2,674	
Marketing, administration and research costs	698	663	
Changes to Mondelēz and PMI tax-related receivables/payables	41	5	
Asset impairment and exit costs	—	7	
Operating income	2,307	1,999	
Interest and other debt expense, net	205	213	
Earnings from equity investment in SABMiller	(187) (328)
Earnings before income taxes	2,289	2,114	
Provision for income taxes	761	717	
Net earnings	1,528	1,397	
Net earnings attributable to noncontrolling interests	—	—	
Net earnings attributable to Altria Group, Inc.	\$1,528	\$1,397	
Per share data:			
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$0.78	\$0.71	
Dividends declared	\$0.565	\$0.52	
See notes to condensed consolidated financial statements.			

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Earnings
 (in millions of dollars)
 (Unaudited)

	For the Nine Months Ended September 30,	
	2015	2014
Net earnings	\$3,995	\$3,834
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	(3)	(1)
Benefit plans	121	71
SABMiller	(593)	(146)
Other comprehensive losses, net of deferred income taxes	(475)	(76)
Comprehensive earnings	3,520	3,758
Comprehensive earnings attributable to noncontrolling interests	(1)	—
Comprehensive earnings attributable to Altria Group, Inc.	\$3,519	\$3,758
See notes to condensed consolidated financial statements.		

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Earnings
 (in millions of dollars)
 (Unaudited)

	For the Three Months Ended September 30,	
	2015	2014
Net earnings	\$1,528	\$1,397
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	(2)	(2)
Benefit plans	40	22
SABMiller	(317)	(245)
Other comprehensive losses, net of deferred income taxes	(279)	(225)
Comprehensive earnings	1,249	1,172
Comprehensive earnings attributable to noncontrolling interests	—	—
Comprehensive earnings attributable to Altria Group, Inc.	\$1,249	\$1,172

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
for the Year Ended December 31, 2014 and
the Nine Months Ended September 30, 2015
(in millions of dollars, except per share data)
(Unaudited)

	Attributable to Altria Group, Inc.							Total Stockholders' Equity
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests		
Balances, December 31, 2013	\$935	\$5,714	\$25,168	\$ (1,378)	\$ (26,320)	\$ (1)	\$ 4,118	
Net earnings (losses) ⁽¹⁾	—	—	5,070	—	—	(3)	5,067	
Other comprehensive losses, net of deferred income taxes	—	—	—	(1,304)	—	—	(1,304)	
Stock award activity	—	21	—	—	8	—	29	
Cash dividends declared (\$2.00 per share)	—	—	(3,961)	—	—	—	(3,961)	
Repurchases of common stock	—	—	—	—	(939)	—	(939)	
Balances, December 31, 2014	935	5,735	26,277	(2,682)	(27,251)	(4)	3,010	
Net earnings (losses) ⁽¹⁾	—	—	3,994	—	—	(2)	3,992	
Other comprehensive losses, net of deferred income taxes	—	—	—	(475)	—	—	(475)	
Stock award activity	—	65	—	—	(40)	—	25	
Cash dividends declared (\$1.605 per share)	—	—	(3,153)	—	—	—	(3,153)	
Repurchases of common stock	—	—	—	—	(518)	—	(518)	
Balances, September 30, 2015	\$935	\$5,800	\$27,118	\$ (3,157)	\$ (27,809)	\$ (6)	\$ 2,881	

Net losses attributable to noncontrolling interests for the nine months ended September 30, 2015 and for the year ended December 31, 2014 exclude net earnings of \$3 million for each period, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section in the condensed consolidated balance sheets at September 30, 2015 and December 31, 2014.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows
 (in millions of dollars)
 (Unaudited)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Provided by (Used in) Operating Activities		
Net earnings	\$3,995	\$3,834
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	150	149
Deferred income tax benefit	(1)	(36)
Earnings from equity investment in SABMiller	(546)	(753)
Dividends from SABMiller	374	344
Loss on early extinguishment of debt	228	—
Cash effects of changes, net of the effects from acquisition of Green Smoke:		
Receivables, net	9	10
Inventories	59	(20)
Accounts payable	(102)	(64)
Income taxes	(6)	17
Accrued liabilities and other current assets	22	(320)
Accrued settlement charges	(284)	(252)
Pension plan contributions	(23)	(12)
Pension provisions and postretirement, net	78	17
Other	137	146
Net cash provided by operating activities	4,090	3,060
See notes to condensed consolidated financial statements.		

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (Continued)
 (in millions of dollars)
 (Unaudited)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Provided by (Used in) Investing Activities		
Capital expenditures	\$(162)	\$(116)
Acquisition of Green Smoke, net of acquired cash	—	(93)
Proceeds from finance assets	255	190
Other	2	79
Net cash provided by investing activities		