

MOLSON COORS BREWING CO
Form 10-Q
August 06, 2014

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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 30, 2014

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

80202

1555 Notre Dame Street East, Montréal, Québec, Canada

H2L 2R5

(Address of principal executive offices)

(Zip Code)

303-927-2337 (Colorado)

514-521-1786 (Québec)

(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 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)

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 August 1, 2014:

Class A Common Stock— 2,556,894 shares

Class B Common Stock—160,798,376 shares

Exchangeable shares:

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As of August 1, 2014, the following number of exchangeable shares were outstanding for Molson Coors Canada, Inc.:

Class A Exchangeable shares—2,896,939 shares

Class B Exchangeable shares—18,846,136 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 each of special Class A and Class B 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 shares, 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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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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (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 under the heading "Outlook for 2014" therein, 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," "potential," "projects," "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 past and future reports filed with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the year ended December 31, 2013. 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.

Market and Industry Data

The market and industry data used in this Quarterly Report on Form 10-Q are based on independent industry publications, customers, trade or business organizations, reports by market research firms and other published statistical information from third parties, as well as information based on management's good faith estimates, which we derive from our review of internal information and independent sources. Although we believe these sources to be reliable, we have not independently verified the accuracy or completeness of the information.

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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)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
Sales	\$1,685.9	\$1,659.7	\$2,864.2	\$2,844.5
Excise taxes	(497.4	) (481.7	) (859.7	) (838.0
Net sales	1,188.5	1,178.0	2,004.5	2,006.5
Cost of goods sold	(683.3	) (684.1	) (1,206.5	) (1,231.2
Gross profit	505.2	493.9	798.0	775.3
Marketing, general and administrative expenses	(327.8	) (319.5	) (591.7	) (613.4
Special items, net	(2.7	) (1.3	) 49.8	(2.8
Equity income in MillerCoors	190.1	172.6	312.9	290.0
Operating income (loss)	364.8	345.7	569.0	449.1
Interest income (expense), net	(36.2	) (41.2	) (71.6	) (116.1
Other income (expense), net	0.7	(7.3	) 1.5	(3.0
Income (loss) from continuing operations before income taxes	329.3	297.2	498.9	330.0
Income tax benefit (expense)	(36.4	) (30.0	) (41.2	) (32.0
Net income (loss) from continuing operations	292.9	267.2	457.7	298.0
Income (loss) from discontinued operations, net of tax	0.2	1.7	(1.7	) 0.8
Net income (loss) including noncontrolling interests	293.1	268.9	456.0	298.8
Net (income) loss attributable to noncontrolling interests	(2.2	) (1.6	) (1.7	) (3.0
Net income (loss) attributable to Molson Coors Brewing Company	\$290.9	\$267.3	\$454.3	\$295.8
Basic net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	\$1.57	\$1.45	\$2.47	\$1.62
From discontinued operations	—	0.01	(0.01) —
Basic net income (loss) attributable to Molson Coors Brewing Company per share	\$1.57	\$1.46	\$2.46	\$1.62
Diluted net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	\$1.56	\$1.44	\$2.46	\$1.61
From discontinued operations	—	0.01	(0.01) —
Diluted net income (loss) attributable to Molson Coors Brewing Company per share	\$1.56	\$1.45	\$2.45	\$1.61
Weighted-average shares—basic	184.8	182.9	184.5	182.3
Weighted-average shares—diluted	185.9	184.1	185.7	183.5
Amounts attributable to Molson Coors Brewing Company				
Net income (loss) from continuing operations	\$290.7	\$265.6	\$456.0	\$295.0

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Income (loss) from discontinued operations, net of tax	0.2	1.7	(1.7) 0.8
Net income (loss) attributable to Molson Coors Brewing Company	\$290.9	\$267.3	\$454.3	\$295.8

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (IN MILLIONS)
 (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
Net income (loss) including noncontrolling interests	\$293.1	\$268.9	\$456.0	\$298.8
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	160.1	(113.6)	(21.9)	(394.3)
Unrealized gain (loss) on derivative instruments	(10.6)	19.6	3.9	32.7
Reclassification of derivative (gain) loss to income	(2.4)	(0.8)	(5.6)	(0.7)
Pension and other postretirement benefit adjustments	—	(2.4)	—	—
Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income	7.8	13.3	15.4	23.9
Ownership share of unconsolidated subsidiaries' other comprehensive income (loss)	7.6	(2.8)	9.2	(9.5)
Total other comprehensive income (loss), net of tax	162.5	(86.7)	1.0	(347.9)
Comprehensive income (loss)	455.6	182.2	457.0	(49.1)
Comprehensive (income) loss attributable to noncontrolling interests	(2.2)	(1.6)	(1.7)	(3.0)
Comprehensive income (loss) attributable to Molson Coors Brewing Company	\$453.4	\$180.6	\$455.3	\$(52.1)

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN MILLIONS, EXCEPT PAR VALUE)
 (UNAUDITED)

	As of June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$506.0	\$442.3
Accounts receivable, net	730.9	603.6
Other receivables, net	141.5	124.4
Inventories:		
Finished	189.0	133.2
In process	28.2	23.3
Raw materials	42.4	36.9
Packaging materials	17.7	11.9
Total inventories	277.3	205.3
Other current assets, net	119.3	111.7
Deferred tax assets	25.3	50.4
Total current assets	1,800.3	1,537.7
Properties, net	1,974.0	1,970.1
Goodwill	2,440.7	2,418.7
Other intangibles, net	6,777.2	6,825.1
Investment in MillerCoors	2,598.6	2,506.5
Deferred tax assets	16.5	38.3
Notes receivable, net	23.9	23.6
Other assets	241.8	260.1
Total assets	\$15,873.0	\$15,580.1
Liabilities and equity		
Current liabilities:		
Accounts payable and other current liabilities	\$1,514.7	\$1,429.6
Deferred tax liabilities	138.1	138.1
Current portion of long-term debt and short-term borrowings	451.6	586.9
Discontinued operations	7.3	6.8
Total current liabilities	2,111.7	2,161.4
Long-term debt	3,208.6	3,213.0
Pension and postretirement benefits	443.3	462.6
Deferred tax liabilities	977.4	911.4
Unrecognized tax benefits	61.7	107.1
Other liabilities	66.7	77.2
Discontinued operations	18.5	17.3
Total liabilities	6,887.9	6,950.0
Commitments and contingencies (Note 15)		
Molson Coors Brewing Company stockholders' equity		
Capital stock:		
Preferred stock, no par value (authorized: 25.0 shares; none issued)	—	—
Class A common stock, \$0.01 par value per share (authorized: 500.0 shares; issued and outstanding: 2.6 shares and 2.6 shares, respectively)	—	—

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Class B common stock, \$0.01 par value per share (authorized: 500.0 shares; issued: 168.2 shares and 167.2 shares, respectively)	1.7	1.7
Class A exchangeable shares, no par value (issued and outstanding: 2.9 shares and 2.9 shares, respectively)	108.5	108.5
Class B exchangeable shares, no par value (issued and outstanding: 18.8 shares and 19.0 shares, respectively)	709.6	714.1
Paid-in capital	3,790.3	3,747.6
Retained earnings	4,517.1	4,199.5
Accumulated other comprehensive income (loss)	155.9	154.9
Class B common stock held in treasury at cost (7.5 shares and 7.5 shares, respectively)	(321.1	) (321.1)
Total Molson Coors Brewing Company stockholders' equity	8,962.0	8,605.2
Noncontrolling interests	23.1	24.9
Total equity	8,985.1	8,630.1
Total liabilities and equity	\$15,873.0	\$15,580.1
See notes to unaudited condensed consolidated financial statements.		

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

	Six Months Ended	
	June 30, 2014	June 29, 2013
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	\$456.0	\$298.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	158.4	160.9
Amortization of debt issuance costs and discounts	4.2	14.2
Share-based compensation	12.1	15.4
Loss (gain) on sale or impairment of properties and other assets, net	3.0	6.3
Deferred income taxes	9.8	13.1
Equity income in MillerCoors	(312.9	) (290.0
Distributions from MillerCoors	312.9	290.0
Equity in net income of other unconsolidated affiliates	(2.7	) (7.8
Distributions from other unconsolidated affiliates	11.1	13.0
Excess tax benefits from share-based compensation	(3.2	) (5.4
Unrealized (gain) loss on foreign currency fluctuations and derivative instruments, net	(3.2	) 28.9
Change in current assets and liabilities and other	(71.2	) 54.4
(Gain) loss from discontinued operations	1.7	(0.8
Net cash provided by operating activities	576.0	591.0
Cash flows from investing activities:		
Additions to properties	(126.4	) (149.7
Proceeds from sales of properties and other assets	4.1	4.9
Proceeds from sale of business	—	2.0
Investment in MillerCoors	(764.4	) (615.3
Return of capital from MillerCoors	691.9	515.2
Investment in and advances to an unconsolidated affiliate	—	(2.8
Loan repayments	4.0	4.5
Loan advances	(3.3	) (3.7
Net cash used in investing activities	(194.1	) (244.9
Cash flows from financing activities:		
Exercise of stock options under equity compensation plans	27.7	63.1
Excess tax benefits from share-based compensation	3.2	5.4
Dividends paid	(136.7	) (116.8
Dividends paid to noncontrolling interests holders	(2.4	) (1.2
Payments for purchase of noncontrolling interest	(0.4	) (0.2
Debt issuance costs	(1.8	) (0.2
Payments on long-term debt and capital lease obligations	(62.2	) (52.4
Proceeds from short-term borrowings	20.9	9.3
Payments on short-term borrowings	(23.3	) (15.1
Payments on settlement of derivative instruments	(65.2	) (35.1
Net proceeds from (payments on) revolving credit facilities and commercial paper	(214.3	) (2.9
Change in overdraft balances and other	131.4	2.0
Net cash used in financing activities	(323.1) (144.1

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Cash and cash equivalents:

Net increase (decrease) in cash and cash equivalents	58.8	202.0	
Effect of foreign exchange rate changes on cash and cash equivalents	4.9	(24.4)
Balance at beginning of year	442.3	624.0	
Balance at end of period	\$506.0	\$801.6	

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 and non-operating subsidiaries included within our reporting segments and Corporate. Our reporting segments include: Molson Coors Canada ("MCC" or Canada segment), operating in Canada; MillerCoors LLC ("MillerCoors" or U.S. segment), which is accounted for by us under the equity method of accounting, operating in the United States ("U.S."); Molson Coors Europe (Europe segment), operating in Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Republic of Ireland, Romania, Serbia, Slovakia and the United Kingdom ("U.K."); and Molson Coors International ("MCI"), operating in various other countries.

References to Central Europe reflect our operations in Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia and Slovakia, as a result of our acquisition (the "Acquisition") of StarBev Holdings S.à r.l. ("StarBev") from StarBev L.P. (the "Seller") on June 15, 2012, and the results of these operations are included within our Europe segment.

Unless otherwise indicated, information in this report is presented in U.S. dollars ("USD" or "\$") and comparisons are to comparable prior periods as noted below.

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 condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the 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 on Form 10-K for the year ended December 31, 2013 ("Annual Report") and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes to the Audited Consolidated Financial Statements ("Notes") included in our Annual Report. Our accounting policies did not change in the first half of 2014, with the exception of a change to our policy for recognizing advertising expenses in interim periods as discussed below. Additionally, in order to provide further clarity around our policy regarding the classification of special items in the unaudited condensed consolidated statements of operations, we have expanded our related disclosure as reflected below.

Special Items

Our special items represent charges incurred or benefits realized that either we do not believe to be indicative of our core operations, or we believe are significant to our current operating results warranting separate classification; specifically, such items are considered to be one of the following:

- infrequent or unusual items,
- impairment or asset abandonment-related losses,
- restructuring charges and other atypical employee-related costs, or
- fees on termination of significant operating agreements and gains (losses) on disposal of investments.

The items classified as special items are not necessarily non-recurring, however, they are deemed to be incremental to income earned or costs incurred by the Company in conducting normal operations, and therefore are presented separately from other components of operating income.

Our Fiscal Year

On November 14, 2013, our Board of Directors approved a resolution to change MCBC's fiscal year from a 52/53 week fiscal year to a calendar year. As such, our 2013 fiscal year was extended from December 28, 2013, to December 31, 2013, with subsequent fiscal years beginning on January 1 and ending on December 31 of each year. Beginning January 1, 2014, quarterly results reflect the three month periods ending March 31, June 30, September 30, and December 31. This change aligned our fiscal year and interim reporting periods with our Central Europe business and MillerCoors, which were already following a monthly fiscal reporting calendar. Unless otherwise indicated, and with the exception of the Central Europe business and MillerCoors, the second quarter of 2013 and the three months ended June 29, 2013, refer to the thirteen weeks ended June 29, 2013. The first half of 2013 and the six months ended June 29, 2013, refer to the twenty-six weeks ended June 29, 2013. The

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second quarter and first half of 2014 refer to the three and six months ended June 30, 2014, respectively. Fiscal year 2014 refers to the 12 months ending December 31, 2014, and fiscal year 2013 refers to the period from December 30, 2012, to December 31, 2013. The impact of the additional days in fiscal year 2013 is immaterial to the unaudited condensed consolidated financial statements.

The results of operations for the three and six months ended June 30, 2014, are not necessarily indicative of the results that may be achieved for the full fiscal year.

Change in Interim Period Accounting for Advertising Expenses

In previous years' interim periods, including the quarterly periods within fiscal year 2013, we recognized advertising costs in expense during the fiscal year based on the proportion of sales volumes for the interim period in relation to the estimated annual sales volumes. U.S. GAAP permits the allocation of advertising costs across interim periods within a fiscal year when future periods benefit from the expenditure. Advertising expenses were not deferred from one fiscal year to the next. Effective beginning the first quarter of fiscal year 2014, we changed our method of accounting for advertising expenses for interim periods such that advertising expense is now recognized as incurred. We adopted this change as a result of management's belief that the new method is preferable and results in a more objective measure of quarterly expense that will better support planning and resource allocation decisions by management, results in improved financial statements for investor analysis, and further aligns our treatment with that of our U.S. operations within MillerCoors. The new policy of expensing advertising costs as incurred additionally eliminates the uncertainty in estimating overall expected sales volumes, advertising expenses, and the benefit period of the advertising on an interim basis, and conforms our interim accounting policy with that used to prepare the annual financial statements. The change has been applied retrospectively to all prior interim periods presented. The quarterly impact of the change in accounting policy on marketing, general and administrative expenses and the associated impact on income tax expense, as well as the impact to certain subtotals and diluted earnings per share within our unaudited condensed consolidated statement of operations, is as follows:

	Three Months Ended March 30, 2013		Three Months Ended June 29, 2013		Three Months Ended September 28, 2013		Three Months Ended December 31, 2013	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
	(In millions)							
Marketing, general and administrative expenses	\$(285.3)	\$(293.9)	\$(304.3)	\$(319.5)	\$(307.8)	\$(290.8)	\$(296.4)	\$(289.6)
Income (loss) from continuing operations before income taxes	\$41.4	\$32.8	\$312.4	\$297.2	\$155.4	\$172.4	\$145.3	\$152.1
Income tax benefit (expense)	\$(3.5)	\$(2.0)	\$(34.1)	\$(30.0)	\$(32.7)	\$(37.2)	\$(13.7)	\$(14.8)
Net income (loss) attributable to Molson Coors Brewing Company	\$35.6	\$28.5	\$278.4	\$267.3	\$121.8	\$134.3	\$131.5	\$137.2
Diluted net income (loss) attributable to Molson Coors Brewing Company per share	\$0.20	\$0.16	\$1.51	\$1.45	\$0.66	\$0.73	\$0.71	\$0.74

As noted above, under our historical treatment, advertising expenses were not deferred from one fiscal year to the next. Therefore, the change in interim accounting had no impact on full year consolidated results.

The following table shows the impact to income (loss) from continuing operations before income taxes by segment as a result of the change in accounting policy for advertising expense. The full impact of this change in presentation is

reflected within marketing, general and administrative expenses.

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Income (loss) from continuing operations before income taxes by segment:

	Three Months Ended March 30, 2013		Three Months Ended June 29, 2013		Three Months Ended September 28, 2013		Three Months Ended December 31, 2013	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
	(In millions)							
Canada	\$36.4	\$28.4	\$137.3	\$128.6	\$128.7	\$143.6	\$60.9	\$62.7
U.S.	\$117.4	\$117.4	\$172.6	\$172.6	\$148.3	\$148.3	\$100.7	\$100.7
Europe	\$(3.7)	\$(5.2)	\$81.6	\$75.8	\$(69.5)	\$(67.4)	\$25.9	\$31.1
MCI	\$(6.1)	\$(5.2)	\$(3.3)	\$(4.0)	\$(2.4)	\$(2.4)	\$—	\$(0.2)
Corporate	\$(102.6)	\$(102.6)	\$(75.8)	\$(75.8)	\$(49.7)	\$(49.7)	\$(42.2)	\$(42.2)

As noted above, under our historical treatment, advertising expenses were not deferred from one fiscal year to the next. Therefore, the change in interim accounting had no impact on full year segment results.

Foreign Currency Translation Tax Adjustment

During the third quarter of 2013, we identified that we had incorrectly recorded tax adjustments related to certain foreign currency movements in the financial statements for both the first and second quarters of 2013 that misstated non-current deferred tax assets, accumulated other comprehensive income (loss), and comprehensive income by immaterial amounts. We have revised the foreign currency translation adjustments, net of tax, included in other comprehensive income (loss) and comprehensive income (loss) in the unaudited condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 29, 2013. These errors were corrected in the third quarter of 2013 and therefore had no impact on the unaudited condensed consolidated balance sheet as of December 31, 2013. Note that the as adjusted amounts below also reflect the adjustments related to the change in interim accounting for advertising expense as discussed above.

	Three Months Ended June 29, 2013		Six Months Ended June 29, 2013	
	As Reported	As Adjusted	As Reported	As Adjusted
	(In millions)			
Foreign currency translation adjustments, net of tax	\$(79.4)	\$(113.6)	\$(340.7)	\$(394.3)
Total other comprehensive income (loss), net of tax	\$(52.5)	\$(86.7)	\$(294.3)	\$(347.9)
Comprehensive income (loss) attributable to Molson Coors Brewing Company	\$225.9	\$180.6	\$19.7	\$(52.1)

Unrecognized Tax Benefit Adjustments

During the second quarter of 2014, we identified that we had incorrectly omitted the recognition of a liability for specific uncertain tax positions related to fiscal year 2010 that resulted in an immaterial misstatement of unrecognized tax benefits and retained earnings within the consolidated balance sheets at December 31, 2013, and December 29, 2012, included in our Annual Report. We determined the impact of the correction of this error to be too significant to record within our second quarter 2014 results and, therefore, have revised our historical balance sheets accordingly. To correct for this error, we have revised the unrecognized tax benefits and retained earnings in the unaudited condensed consolidated balance sheet as of December 31, 2013, included herein. This correction resulted in an increase in the current portion of unrecognized tax benefits included within accounts payable and other current liabilities of \$19.3 million, an increase in noncurrent unrecognized tax benefits of \$14.4 million and a corresponding decrease to retained earnings of \$33.7 million. These unrecognized tax benefits remain in our unaudited condensed consolidated balance sheet as of June 30, 2014. These items relate to tax years that are currently open, and amounts may differ from those to be determined upon closing of the positions.

2. New Accounting Pronouncements**Adoption of New Accounting Pronouncements****Joint and Several Liability Arrangements**

In February 2013, the FASB issued authoritative guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance was effective for our quarter ended March 31, 2014. The adoption of this guidance did not have an impact on our financial position or results from operations.

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Cumulative Translation Adjustment

In March 2013, the FASB issued authoritative guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This update also resolves the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. The guidance was effective for our quarter ended March 31, 2014. The adoption of this guidance did not have an impact on our financial position or results from operations.

Liquidation Basis of Accounting

In April 2013, the FASB issued authoritative guidance to clarify when it is appropriate to apply the liquidation basis of accounting. Additionally, the update provides guidance for recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Under the amendment, entities are required to prepare their financial statements under the liquidation basis of accounting when a liquidation becomes imminent. The guidance was effective for our quarter ended March 31, 2014. The adoption of this guidance did not have an impact on our financial position or results from operations.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued authoritative guidance related to the presentation of unrecognized tax benefits. The update requires that the entity present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward in the statement of financial position. The guidance does not apply to the extent that a net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. The guidance was effective for our quarter ended March 31, 2014. As a result of adopting this guidance, we have presented deferred tax assets net of unrecognized tax benefits, as appropriate, in the unaudited condensed consolidated balance sheets. The adoption of this guidance impacted the classification of our outstanding unrecognized tax benefits and resulted in a reclassification of \$37.8 million from the unrecognized tax benefits line item within the unaudited condensed consolidated balance sheet upon adoption in the first quarter of 2014.

New Accounting Pronouncements Not Yet Adopted

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued authoritative guidance related to reporting discontinued operations and disclosures of disposals of components of an entity. The update limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. This update requires expanded disclosures related to assets, liabilities, revenues and expenses of discontinued operations. This update also requires the disclosure of pretax profit or loss and the financial effects of significant disposals that do not qualify for discontinued operations reporting. The guidance is effective for annual reporting periods beginning on or after December 15, 2014, and interim reporting periods thereafter. We do not anticipate that this guidance will have an impact on our financial position or results of operations.

Revenue Recognition

In May 2014, the FASB issued authoritative guidance related to new accounting requirements for the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for the goods or services. The requirements of the new standard are effective for the annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance.

Share-Based Payments

In June 2014, the FASB issued authoritative guidance related to share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The requirements of the new standard are effective for the annual reporting periods beginning

after December 15, 2015, and interim periods within those annual periods. We do not anticipate that this guidance will have a material impact on our financial position or results of operations.

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3. Segment Reporting

Our reporting segments are based on the key geographic regions in which we operate, which are the basis on which our chief operating decision maker evaluates the performance of the business. Our reporting segments consist of Canada, the U.S., Europe and MCI. Corporate is not a segment and primarily includes interest and certain other general and administrative costs that are not allocated to any of the operating segments. No single customer accounted for more than 10% of our consolidated or segmented sales for the three and six months ended June 30, 2014, and June 29, 2013, respectively. Net sales represent sales to third-party external customers. Inter-segment sales revenues and income (loss) from continuing operations before income taxes, other than those to MillerCoors (see Note 4, "Investments" for additional detail), are insignificant and eliminated in consolidation.

The following table presents net sales by segment:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
	(In millions)			
Canada	\$516.5	\$558.2	\$863.6	\$953.8
Europe	629.4	586.2	1,067.0	992.6
MCI	43.7	34.7	75.9	61.7
Corporate	0.4	0.3	0.7	0.6
Eliminations(1)	(1.5	) (1.4	) (2.7	) (2.2
Consolidated	\$1,188.5	\$1,178.0	\$2,004.5	\$2,006.5

(1) Represents inter-segment sales from the Europe segment to the MCI segment.

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 29, 2013(1)	June 30, 2014	June 29, 2013(1)
	(In millions)			
Canada	\$120.8	\$128.6	\$209.1	\$157.0
U.S.	190.1	172.6	312.9	290.0
Europe	84.5	75.8	111.5	70.6
MCI	(3.7	) (4.0	) (6.7	) (9.2
Corporate	(62.4	) (75.8	) (127.9	) (178.4
Consolidated	\$329.3	\$297.2	\$498.9	\$330.0

(1) Amounts have been adjusted to reflect the change in interim accounting for advertising expenses. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for further discussion.

The following table presents total assets by segment:

	As of	
	June 30, 2014	December 31, 2013
	(In millions)	
Canada	\$6,068.3	\$6,103.2
U.S.	2,598.6	2,506.5
Europe	6,863.9	6,547.7
MCI	86.0	83.3
Corporate	256.2	339.4
Consolidated	\$15,873.0	\$15,580.1

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4. Investments

Our investments 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 VIEs" below are those for which we have concluded that we are the primary beneficiary and accordingly, consolidate these entities. None of our consolidated VIEs held debt as of June 30, 2014, or December 31, 2013. We have not provided any financial support to any of our VIEs during the quarter that we were not previously contractually obligated to provide. Amounts due to and due from our equity method investments are recorded as affiliate accounts payable and affiliate accounts receivable.

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. As of June 30, 2014, and December 31, 2013, our consolidated VIEs are Cobra Beer Partnership, Ltd. ("Cobra U.K.") and Grolsch. Our unconsolidated VIEs are Brewers' Retail Inc. ("BRI"), Brewers' Distributor Ltd. ("BDL") and Molson Modelo Imports L.P. ("MMI"). See further discussion below.

Equity Investments

Investment in MillerCoors

Summarized financial information for MillerCoors is as follows:

Condensed Balance Sheets

	As of June 30, 2014	December 31, 2013
	(In millions)	
Current assets	\$1,007.5	\$798.4
Non-current assets	8,945.9	8,989.3
Total assets	\$9,953.4	\$9,787.7
Current liabilities	\$998.3	\$950.1
Non-current liabilities	1,247.2	1,346.2
Total liabilities	2,245.5	2,296.3
Noncontrolling interests	23.4	20.7
Owners' equity	7,684.5	7,470.7
Total liabilities and equity	\$9,953.4	\$9,787.7

The following represents our proportionate share in MillerCoors' equity and reconciliation to our investment in MillerCoors:

	As of June 30, 2014	December 31, 2013
	(In millions, except percentages)	
MillerCoors owners' equity	\$7,684.5	\$7,470.7
MCBC economic interest	42	% 42
MCBC proportionate share in MillerCoors' equity	3,227.5	3,137.7
Difference between MCBC contributed cost basis and proportionate share of the underlying equity in net assets of MillerCoors(1)	(663.9)	) (666.2)
Accounting policy elections	35.0	35.0
Investment in MillerCoors	\$2,598.6	\$2,506.5

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 proportionate share of underlying equity (42%) of MillerCoors (contributed by both Coors (1)Brewing Company ("CBC") and Miller Brewing Company ("Miller")). This basis difference, with the exception of certain non-amortizing items (goodwill, land, etc.), is being amortized as additional equity income over the remaining useful lives of the contributed long-lived amortizing assets.

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Results of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(In millions)			
Net sales	\$2,206.7	\$2,159.0	\$3,997.1	\$3,947.3
Cost of goods sold	(1,282.4)	(1,270.1)	(2,376.5)	(2,358.8)
Gross profit	\$924.3	\$888.9	\$1,620.6	\$1,588.5
Operating income	\$449.8	\$417.9	\$747.3	\$692.4
Net income attributable to MillerCoors	\$445.2	\$412.7	\$736.4	\$684.6

The following represents our proportionate share in net income attributable to MillerCoors reported under the equity method:

	Three Months Ended		Six Months Ended		
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013	
	(In millions, except percentages)				
Net income attributable to MillerCoors	\$445.2	\$412.7	\$736.4	\$684.6	
MCBC economic interest	42	% 42	% 42	% 42	%
MCBC proportionate share of MillerCoors net income	187.0	173.3	309.3	287.5	
Amortization of the difference between MCBC contributed cost basis and proportionate share of the underlying equity in net assets of MillerCoors	1.2	1.0	2.3	2.2	
Share-based compensation adjustment(1)	1.9	(1.7)	1.3	0.3	
Equity income in MillerCoors	\$190.1	\$172.6	\$312.9	\$290.0	

(1) The net adjustment is to eliminate all share-based compensation impacts related to pre-existing SABMiller plc equity awards held by former Miller employees employed by MillerCoors.

The following table summarizes our transactions with MillerCoors:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
	(In millions)			
Beer sales to MillerCoors	\$3.7	\$4.5	\$6.3	\$8.9
Beer purchases from MillerCoors	\$9.1	\$3.9	\$16.2	\$7.0
Service agreement costs and other charges to MillerCoors	\$0.7	\$0.7	\$1.1	\$1.3
Service agreement costs and other charges from MillerCoors	\$0.3	\$—	\$0.5	\$0.2

As of June 30, 2014, and December 31, 2013, we had \$8.1 million and \$4.4 million of net payables due to MillerCoors, respectively.

Consolidated VIEs

The following summarizes the assets and liabilities of our consolidated VIEs (including noncontrolling interests):

	As of June 30, 2014		December 31, 2013	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
	(In millions)			
Grolsch	\$8.5	\$3.1	\$5.6	\$1.7
Cobra U.K.	\$29.4	\$0.6	\$36.5	\$1.9

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Termination of MMI Operations

On November 5, 2013, Anheuser-Busch Inbev ("ABI") and MCBC entered into an agreement providing for the accelerated termination of MMI, a 50% - 50% joint venture with Grupo Modelo S.A.B. de C.V. ("Modelo"), which provided for the import, distribution, and marketing of the Modelo beer brand portfolio across all Canadian provinces and territories. The joint venture, accounted for under the equity method of accounting, was originally a 10 year agreement ending January 1, 2018. In June 2013, ABI completed its combination with Modelo, including Modelo's interest in MMI. Following negotiations with ABI, MCC consented to change the effective termination date of the agreement from January 1, 2018, to February 28, 2014, upon successful close and completion of the transition period, at which time MCC would receive payment from Modelo for the early termination of the original agreement. In conjunction with these negotiations, ABI also agreed that we will continue to represent the Modelo brands in the U.K. and Japan through the end of 2014.

The transition period was successfully completed on February 28, 2014, at which time we recognized income of \$63.2 million (CAD 70.0 million) within special items, reflective of the agreed upon payment received from Modelo. Additionally we recorded a charge of \$4.9 million representing the accelerated amortization of the remaining carrying value of our definite-lived intangible asset associated with the agreement. In accordance with the termination agreement, MMI continued to operate in its historical capacity through the end of the transition period. Effective end of day on February 28, 2014, MMI ceased all operations and will be dissolved during the second half of 2014 upon final agreement with ABI on the distribution amount of the joint venture's remaining net assets. As a result, our first half of 2014 results reflect our proportionate ownership interest of the MMI activity during the first quarter of 2014 through end of day February 28, 2014. Under the MMI arrangement, we recognized equity earnings within cost of goods sold of \$0.7 million during the six months ended June 30, 2014, and \$4.5 million and \$5.1 million during the three and six months ended June 29, 2013, respectively. In addition, during the six months ended June 30, 2014, and three and six months ended June 29, 2013, MCC recognized marketing and administrative cost recoveries related to the promotion, sale and distribution of Modelo products under our agency and services agreement with MMI of \$1.1 million, \$3.3 million and \$5.7 million, respectively. These cost recoveries are recorded within marketing, general and administrative expenses. As of June 30, 2014, and December 31, 2013, our unaudited condensed consolidated balance sheet includes our investment in MMI of \$10.6 million and \$21.2 million, respectively, and an affiliate net payable to MMI of \$4.7 million and \$13.8 million, respectively.

In accordance with the early termination agreement, the book value of the joint venture's net assets is required to be distributed to the respective joint venture partners for the owners' proportionate ownership interest at the end of the transition period, which we expect to occur in the second half of 2014. Concurrently, we will derecognize our equity investment within other non-current assets and recognize a gain (loss), if any, within special items resulting from the excess (deficit) of the total proceeds, consisting of our proportionate ownership interest in the book value of the joint venture's assets, over our equity investment and joint venture related net asset balances upon final distribution.

5. Share-Based Payments

During the six months ended June 30, 2014, and June 29, 2013, 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 share units ("PSU"), performance units ("PU") and stock options. The settlement amount of the PSUs is determined based on market and performance metrics, which include our total shareholder return performance relative to the S&P 500 and specified internal performance metrics designed to drive greater shareholder return. PSU compensation expense is based on a fair value assigned to the market metric using a Monte Carlo model, which will remain constant throughout the vesting period of three years, and a performance multiplier, which will vary due to changing estimates of the performance metric condition.

The following table summarizes share-based compensation expense:

Three Months Ended		Six Months Ended	
June 30, 2014	June 29, 2013	June 30, 2014	June 29, 2013
(In millions)			

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Pretax compensation expense	\$3.8	\$4.3	\$12.1	\$15.4	
Tax benefit	(1.2) (1.1) (3.9) (4.5)