

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

BROWN FORMAN CORP  
Form 10-Q  
March 09, 2007

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 JANUARY 31, 2007

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 No. 002-26821

BROWN-FORMAN CORPORATION  
(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

61-0143150  
(IRS Employer  
Identification No.)

850 Dixie Highway  
Louisville, Kentucky  
(Address of principal executive offices)

40210  
(Zip Code)

(502) 585-1100  
(Registrant's telephone number, including area code)

N/A  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
(Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 issuer's classes of common stock, as of the latest practicable date: February 28, 2007

Class A Common Stock (\$.15 par value, voting)	56,870,147
Class B Common Stock (\$.15 par value, nonvoting)	66,263,375

# Edgar Filing: BROWN FORMAN CORP - Form 10-Q

## BROWN-FORMAN CORPORATION Index to Quarterly Report Form 10-Q

### PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	Page
	Condensed Consolidated Statements of Operations Three months ended January 31, 2006 and 2007 Nine months ended January 31, 2006 and 2007	3
	Condensed Consolidated Balance Sheets April 30, 2006 and January 31, 2007	4
	Condensed Consolidated Statements of Cash Flows Nine months ended January 31, 2006 and 2007	5
	Notes to the Condensed Consolidated Financial Statements	6 - 17
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18 - 26
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	26
Item 4.	Controls and Procedures	27

### PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	28 - 29
Item 1A.	Risk Factors	29 - 30
Item 6.	Exhibits	30
	Signatures	31

2

### PART I - FINANCIAL INFORMATION

#### Item 1. Financial Statements (Unaudited)

#### BROWN-FORMAN CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (Dollars in millions, except per share amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2007	2006	2007
Net sales	\$ 627.6	\$ 754.8	\$1,827.1	\$2,115.4
Excise taxes	132.8	172.7	345.9	446.1
Cost of sales	164.0	194.8	495.8	550.4

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Gross profit	330.8	387.3	985.4	1,118.9
Advertising expenses	84.7	94.2	243.2	267.2
Selling, general, and administrative expenses	113.3	129.2	328.5	378.1
Other (income), net	(32.5)	(4.9)	(46.7)	(20.1)
Operating income	165.3	168.8	460.4	493.7
Interest income	4.6	5.6	9.7	14.2
Interest expense	4.3	8.1	13.4	19.6
Income from continuing operations before income taxes	165.6	166.3	456.7	488.3
Income taxes	45.5	54.7	136.8	157.4
Income from continuing operations	120.1	111.6	319.9	330.9
Income (loss) from discontinued operations, net of income taxes	0.4	(6.5)	(77.8)	(8.2)
Net income	\$ 120.5	\$ 105.1	\$ 242.1	\$ 322.7
Basic earnings (loss) per share:				
Continuing operations	\$ 0.984	\$ 0.907	\$ 2.621	\$ 2.694
Discontinued operations	0.003	(0.052)	(0.637)	(0.066)
Total	\$ 0.987	\$ 0.855	\$ 1.984	\$ 2.628
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.972	\$ 0.898	\$ 2.594	\$ 2.664
Discontinued operations	0.003	(0.052)	(0.631)	(0.066)
Total	\$ 0.975	\$ 0.846	\$ 1.963	\$ 2.598
Shares (in thousands) used in the calculation of earnings (loss) per share:				
Basic	122,116	122,964	122,027	122,810
Diluted	123,558	124,230	123,321	124,189
Cash dividends per common share:				
Declared	\$0.5600	\$0.6050	\$1.0500	\$1.1650
Paid	\$0.2800	\$0.3025	\$0.7700	\$0.8625

See notes to the condensed consolidated financial statements.

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

	April 30, 2006 -----	January 31, 2007 -----
<b>Assets</b>		
-----		
Cash and cash equivalents	\$ 474.8	\$ 253.9
Short-term investments	159.9	149.8
Accounts receivable, net	322.8	485.2
Inventories:		
Barreled whiskey	274.2	293.4
Finished goods	93.7	163.6
Work in process	106.2	132.6
Raw materials and supplies	37.4	111.0
	-----	-----
Total inventories	511.5	700.6
Current portion of deferred income taxes	79.6	79.6
Current assets held for sale	26.3	16.8
Other current assets	34.1	28.3
	-----	-----
Total current assets	1,609.0	1,714.2
Property, plant and equipment, net	425.3	496.7
Prepaid pension cost	142.3	133.4
Goodwill	191.8	664.7
Other intangible assets	324.9	684.6
Noncurrent assets held for sale	13.4	6.8
Other assets	21.6	30.4
	-----	-----
Total assets	\$2,728.3	\$3,730.8
	=====	=====
<b>Liabilities</b>		
-----		
Accounts payable and accrued expenses	\$ 289.4	\$ 363.8
Accrued income taxes	48.5	55.0
Dividends payable	--	37.2
Short-term borrowings	225.0	875.8
Current liabilities held for sale	6.3	5.9
	-----	-----
Total current liabilities	569.2	1,337.7
Long-term debt	349.4	369.3
Deferred income taxes	132.8	126.5
Accrued pension and other postretirement benefits	77.5	82.1
Noncurrent liabilities held for sale	2.5	2.5
Other liabilities	33.8	23.5
	-----	-----
Total liabilities	1,165.2	1,941.6
Commitments and contingencies		
<b>Stockholders' Equity</b>		
-----		
Common stock:		
Class A, voting		
(57,000,000 shares authorized;		
56,882,000 shares issued)	8.5	8.5
Class B, nonvoting		
(100,000,000 shares authorized;		
69,188,000 shares issued)	10.4	10.4
Additional paid-in capital	44.8	52.4
Retained earnings	1,609.1	1,796.2

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Accumulated other comprehensive income	18.0	27.0
Treasury stock (3,565,000 and 2,962,000 shares at April 30 and January 31, respectively)	(127.7)	(105.3)
Total stockholders' equity	1,563.1	1,789.2
Total liabilities and stockholders' equity	\$2,728.3	\$3,730.8

See notes to the condensed consolidated financial statements.

4

BROWN-FORMAN CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in millions)

	Nine Months Ended January 31,	
	2006	2007
Cash flows from operating activities:		
Net income	\$ 242.1	\$ 322.7
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Net loss from discontinued operations	77.8	8.2
Depreciation and amortization	31.4	31.8
Gain on sale of property, plant, and equipment	(2.3)	(11.4)
Stock-based compensation expense	6.5	5.9
Deferred income taxes	(11.7)	(2.0)
Changes in assets and liabilities, excluding the effects of businesses acquired or sold:		
Accounts receivable	(18.1)	(63.0)
Inventories	(47.2)	(44.2)
Other current assets	4.7	7.9
Accounts payable and accrued expenses	(3.0)	0.1
Accrued income taxes	0.1	6.4
Noncurrent assets and liabilities	(15.1)	6.5
Net cash (used for) provided by operating activities of discontinued operations	(21.8)	8.7
Cash provided by operating activities	243.4	277.6
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	--	(1,045.5)
Acquisition of distribution rights	--	(25.0)
Proceeds from sale of discontinued operations	196.5	--
Purchase of short-term investments	(229.7)	(246.7)
Sale of short-term investments	--	256.8
Additions to property, plant, and equipment	(32.9)	(39.1)
Proceeds from sale of property, plant, and equipment	7.0	14.6
Computer software expenditures	(0.1)	(6.4)
Net cash used for investing activities of discontinued operations	(2.7)	(0.5)
Cash used for investing activities	(61.9)	(1,091.8)
Cash flows from financing activities:		

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Net (decrease) increase in short-term borrowings	(30.0)	666.1
Proceeds from exercise of stock options	12.7	25.6
Excess tax benefits from stock options	4.3	6.2
Acquisition of treasury stock	(3.2)	--
Dividends paid	(94.0)	(106.1)
	-----	-----
Cash (used for) provided by financing activities	(110.2)	591.8
 Effect of exchange rate changes on cash and cash equivalents	 --	 1.5
	-----	-----
 Net increase (decrease) in cash and cash equivalents	 71.3	 (220.9)
 Cash and cash equivalents, beginning of period	 294.9	 474.8
	-----	-----
Cash and cash equivalents, end of period	\$ 366.2	\$ 253.9
	=====	=====

See notes to the condensed consolidated financial statements.

5

### BROWN-FORMAN CORPORATION NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In these notes, "we," "us," and "our" refer to Brown-Forman Corporation.

#### 1. Condensed Consolidated Financial Statements

We prepared these unaudited condensed consolidated statements using our customary accounting practices as set out in our annual report on Form 10-K for the year ended April 30, 2006 (the "2006 Annual Report"). We made all of the adjustments (which include only normal, recurring adjustments, unless otherwise noted) needed for a fair statement of this data. Prior period amounts have been recast to reflect Hartmann, Inc. as a component of discontinued operations and net assets held for sale (see Note 4).

We condensed or omitted some of the information found in financial statements prepared according to generally accepted accounting principles ("GAAP"). You should read these financial statements together with the 2006 Annual Report, which does conform to GAAP.

#### 2. Inventories

We use the last-in, first-out ("LIFO") method to determine the cost of most of our inventories. If the LIFO method had not been used, inventories at current cost would have been \$121.1 million higher than reported as of April 30, 2006, and \$127.0 million higher than reported as of January 31, 2007. Changes in the LIFO valuation reserve for interim periods are based on a proportionate allocation of the estimated change for the entire fiscal year.

#### 3. Income Taxes

Our consolidated quarterly effective tax rate is based upon our expected annual

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

operating income, statutory tax rates, and tax laws in the various jurisdictions in which we operate. Significant or unusual items, including adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs. The effective tax rate of 32.2% for continuing operations for the nine months ended January 31, 2007, is based on an expected effective tax rate of 32.4% on ordinary income for the full fiscal year, and was affected by an approximate 3% tax rate on the gain on the sale of a wine production facility in September 2006 (see Note 13).

#### 4. Discontinued Operations

We sold our wholly-owned subsidiary Lenox, Inc. ("Lenox") during fiscal 2006. In connection with the sale, we recognized a non-cash impairment charge of \$59.5 million in July 2005. The impairment charge represented the excess of the carrying value of the net assets sold over the expected sales proceeds. We also incurred transaction costs related to the sale, including legal, tax and actuarial expenses, transaction success payments, and investment banking fees.

6

Lenox's results of operations and the impairment charge and other transaction costs have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statement of operations for the nine months ended January 31, 2006.

After the sale of Lenox, we retained ownership of Brooks & Bentley, a former subsidiary of Lenox, located in the United Kingdom. We signed a contract to sell Brooks & Bentley in March 2007. Also, on November 16, 2006, the Board of Directors, after reviewing various strategic alternatives, decided to pursue a sale of our wholly-owned subsidiary, Hartmann, Inc. ("Hartmann"). Accordingly, the assets and liabilities of Brooks & Bentley and Hartmann are classified as held for sale in the accompanying consolidated balance sheets, and their operating results are classified as discontinued operations in the accompanying consolidated statements of operations. The results of discontinued operations for the three-month and nine-month periods ended January 31, 2007, include a \$9.4 million impairment charge. The majority of this impairment relates to the decision made in the third quarter by our Board of Directors to sell Hartmann and to focus our efforts entirely on our beverage business. The \$6.9 million pre-tax impairment charge associated with Hartmann consisted of a goodwill impairment of \$3.6 million and an impairment charge of \$3.3 million that represented the excess of the carrying value of the net assets to be sold over the expected sales proceeds, net of estimated costs to sell.

Before we decided to sell Hartmann, no impairment charge was recorded because we believed its operations would generate sufficient future cash flows to enable us to fully recover its carrying amount. The decision to sell Hartmann reflects the Board's opinion that the sum of the price to be obtained from the sale and the strategic value of focusing entirely on our beverage business is greater than the value of continuing to operate Hartmann.

There was also \$2.5 million pre-tax impairment charge recorded during the quarter for Brooks & Bentley. This impairment charge reflected a revision to its estimated fair value and costs to sell, based on the negotiations that resulted in our reaching an agreement to sell Brooks & Bentley in March 2007.

7

A summary of discontinued operations follows:

(Dollars in millions)	Three Months Ended	Nine Months Ended
-----------------------	--------------------	-------------------

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

	January 31,		January 31,	
	2006	2007	2006	2007
	-----	-----	-----	-----
Net sales	\$ 17.8	\$ 16.0	\$150.6	\$ 40.8
Operating expenses	(16.4)	(15.6)	(165.2)	(42.7)
Impairment charges	--	(9.4)	(59.5)	(9.4)
Transaction costs	(0.7)	--	(10.3)	--
	-----	-----	-----	-----
Income (loss) before income taxes	0.7	(9.0)	(84.4)	(11.3)
Income tax (expense) benefit	(0.3)	2.5	6.6	3.1
	-----	-----	-----	-----
Net income (loss) from discontinued operations	\$ 0.4	\$ (6.5)	\$ (77.8)	\$ (8.2)
	=====	=====	=====	=====

The net assets held for sale consist of the following:

(Dollars in millions)	April 30, 2006	January 31, 2007
	-----	-----
Current assets:		
Accounts receivable, net	\$ 11.0	\$ 8.4
Inventories	14.7	7.9
Other	0.6	0.5
	-----	-----
	26.3	16.8
	-----	-----
Noncurrent assets:		
Property, plant and equipment, net	3.3	1.7
Goodwill	3.6	--
Other	6.5	5.1
	-----	-----
	13.4	6.8
	-----	-----
Current liabilities:		
Accounts payable and accrued expenses	6.3	5.4
Accrued income taxes	--	0.5
	-----	-----
	6.3	5.9
	-----	-----
Noncurrent liabilities:		
Long-term debt	2.2	2.2
Accrued postretirement benefits	0.3	0.3
	-----	-----
	2.5	2.5
	-----	-----
Net assets held for sale	\$ 30.9	\$ 15.2
	=====	=====

5. Earnings Per Share

Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock-based compensation awards, including stock options, stock-settled stock appreciation rights ("SSARs"), and non-vested restricted



## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

stock. Stock-based awards for approximately 325,000 common shares were excluded from the calculation of diluted earnings per share for the periods ended January 31, 2007, because the exercise price of the awards was greater than the average market price of the shares. No stock-based awards were excluded from the calculation of diluted earnings per share for the periods ended January 31, 2006.

The following table presents information concerning basic and diluted earnings per share:

(Dollars in millions, except per share amounts)	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2007	2006	2007
	-----	-----	-----	-----
Basic and diluted net income (loss):				
Continuing operations	\$120.1	\$111.6	\$319.9	\$330.0
Discontinued operations	0.4	(6.5)	(77.8)	(1.0)
	-----	-----	-----	-----
Total	\$120.5	\$105.1	\$242.1	\$329.0
	=====	=====	=====	=====
Share data (in thousands):				
Basic average common shares outstanding	122,116	122,964	122,027	122,964
Dilutive effect of non-vested restricted stock	33	62	28	62
Dilutive effect of stock options and SSARs	1,409	1,204	1,266	1,204
	-----	-----	-----	-----
Diluted average common shares outstanding	123,558	124,230	123,321	124,230
	=====	=====	=====	=====
Basic earnings (loss) per share:				
Continuing operations	\$0.984	\$0.907	\$2.621	\$2.621
Discontinued operations	0.003	(0.052)	(0.637)	(0.052)
	-----	-----	-----	-----
Total	\$0.987	\$0.855	\$1.984	\$2.569
	=====	=====	=====	=====
Diluted earnings (loss) per share:				
Continuing operations	\$0.972	\$0.898	\$2.594	\$2.594
Discontinued operations	0.003	(0.052)	(0.631)	(0.052)
	-----	-----	-----	-----
Total	\$0.975	\$0.846	\$1.963	\$2.542
	=====	=====	=====	=====

9

### 6. Goodwill and Other Intangible Assets

The following table shows the changes in the amounts recorded as goodwill during the nine months ended January 31, 2007:

(Dollars in millions)

Balance as of April 30, 2006	\$191.8
Acquisition of Chambord (Note 10)	126.9
Acquisition of Casa Herradura (Note 11)	344.2
Foreign currency translation adjustment	1.8
	-----
Balance as of January 31, 2007	\$664.7

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

=====

As of April 30, 2006, our other intangible assets consisted of trademarks and brand names, with indefinite useful lives. As of January 31, 2007, our other intangible assets consisted of:

(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:		
Customer relationships	\$ 5.3	\$ --
Distribution rights	25.0	(0.1)
	-----	-----
	\$30.3	\$(0.1)
	=====	=====
Indefinite-lived intangible assets:		
Trademarks and brand names	\$654.4	--

There was no amortization expense related to intangible assets during the three-month and nine-month periods ended January 31, 2006. Amortization expense related to intangible assets was \$0.1 million for both the three-month and nine-month periods ended January 31, 2007. The projected amortization expense for the remainder of fiscal 2007 is \$1.3 million. Amortization expense of approximately \$5.1 million is projected for each of the next five fiscal years. However, actual amounts of future amortization expense may differ due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets, purchase price reallocations, and other events.

10

7. Pension and Other Postretirement Benefits

The following table shows the components of the pension and other postretirement benefit expense recognized during the periods covered by this report:

(Dollars in millions)	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2007	2006	2007
	-----	-----	-----	-----
Pension Benefits:				
Service cost	\$3.0	\$3.1	\$9.1	\$ 9.3
Interest cost	5.3	5.9	15.9	17.6
Expected return on plan assets	(7.6)	(7.7)	(23.0)	(23.0)
Amortization of:				
Unrecognized prior service cost	0.1	0.2	0.4	0.5
Unrecognized net loss	2.1	2.8	6.3	8.5
	-----	-----	-----	-----
Net expense	\$2.9	\$4.3	\$8.7	\$12.9
	=====	=====	=====	=====
Other Postretirement Benefits:				
Service cost	\$0.3	\$0.3	\$0.8	\$0.8
Interest cost	0.6	0.7	1.9	2.2
Amortization of unrecognized net loss	0.1	0.1	0.2	0.3
	-----	-----	-----	-----
Net expense	\$1.0	\$1.1	\$2.9	\$3.3
	=====	=====	=====	=====

8. Contingencies

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

We operate in a litigious environment, and we get sued in the normal course of business. Sometimes plaintiffs seek substantial damages. Significant judgment is required in predicting the outcome of these suits and claims, many of which take years to adjudicate. We accrue estimated costs for a contingency when we believe that a loss is probable and we can make a reasonable estimate of the loss, and adjust the accrual as appropriate to reflect changes in facts and circumstances.

A law firm has sued Brown-Forman and many other manufacturers and marketers of spirits, wines, and beer in a series of nine very similar class action lawsuits seeking damages and injunctive relief from alleged marketing of beverage alcohol to underage consumers. The suits allege that the defendants engage in deceptive and negligent marketing practices targeting underage consumers. They seek to recover on behalf of parents those funds that their children spent on the illegal purchase of alcohol as well as disgorgement of all profits from the alleged illegal sales. Brown-Forman is vigorously defending these cases. Six of the suits have been dismissed by trial court and are being appealed. One case remains pending on a motion to dismiss. Two others were voluntarily withdrawn. We cannot yet predict the outcome of these claims, including whether we will incur related losses or the amount of such losses. Since we cannot estimate the amount of possible loss, no amounts have been accrued. However, an unfavorable result in these or similar class action lawsuits could have a material adverse impact on our business.

11

### 9. Comprehensive Income

Comprehensive income is a broad measure of the effects of all transactions and events (other than investments by or distributions to shareholders) that are recognized in stockholders' equity, regardless of whether those transactions and events are included in net income. The following table adjusts the Company's net income for the other items included in the determination of comprehensive income:

(Dollars in millions)	Three Months Ended January 31,		Nine Months Ended January 31,	
	2006	2007	2006	2007
	-----	-----	-----	-----
Continuing operations:				
Net income	\$120.1	\$111.6	\$319.9	\$330.9
Other comprehensive income (loss):				
Net loss (gain) on cash flow hedges	(1.2)	1.5	1.1	2.0
Net gain on securities	--	--	0.1	--
Foreign currency translation adjustment	2.3	4.2	(10.5)	6.3
	-----	-----	-----	-----
	1.1	5.7	(9.3)	8.3
	-----	-----	-----	-----
Comprehensive income	121.2	117.3	310.6	339.2
	-----	-----	-----	-----
Discontinued operations:				
Net income (loss)	0.4	(6.5)	(77.8)	(8.2)
Other comprehensive income (loss):				
Pension liability adjustment	--	--	27.6	--
Foreign currency translation adjustment	--	0.2	(0.9)	0.7
	-----	-----	-----	-----
	--	0.2	26.7	0.7
	-----	-----	-----	-----

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Comprehensive income (loss)	0.4	(6.3)	(51.1)	(7.5)
	-----	-----	-----	-----
Total comprehensive income	\$121.6	\$111.0	\$259.5	\$331.7
	=====	=====	=====	=====

Accumulated other comprehensive income (loss) consisted of the following:

(Dollars in millions)	April 30,	January 31,
	2006	2007
	-----	-----
Pension liability adjustment	\$ (4.6)	\$ (4.6)
Cumulative translation adjustment	23.8	30.8
Unrealized loss on cash flow hedge contracts	(1.4)	0.6
Unrealized gain on securities	0.2	0.2
	-----	-----
	\$ 18.0	\$27.0
	=====	=====

12

### 10. Acquisition of Chambord Liqueur

Effective May 31, 2006, we completed the acquisition of Chambord Liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$250.6 million, including transaction costs. We believe that Chambord, which is positioned in the super-premium spirits category, fits well with our approach to brand building. With the close of the transaction, we acquired the Chambord trademark, French manufacturing operations where the brand is produced, and the services of employees who work at the facility.

The acquisition consists primarily of the Chambord brand name and goodwill, to which we have preliminarily allocated \$116.5 million and \$126.9 million of the purchase price, respectively. The transaction provides valuable strategic opportunities, which we believe will enable us to leverage our strong brand building skills and our current distribution network, allowing us to grow sales of this super-premium priced product around the world. We also believe that the brand will provide us with additional distributor influence and that it complements several other brands in our portfolio, allowing for cross-selling, merchandising, and promotion, which will lead to overall increased sales. These factors contributed to a purchase price that resulted in the recognition of \$126.9 million of goodwill. The entire amount allocated to goodwill is deductible for income tax purposes. The initial allocation of the purchase price was based on preliminary estimates and may be revised as asset valuations are finalized. The operating results of Chambord have been consolidated with our financial statements since the acquisition date. Consolidated pro forma operating results for the three-month and nine-month periods ended January 31, 2006 and 2007 would not have been materially different from the actual amounts reported for those periods.

### 11. Acquisition of Casa Herradura

On January 18, 2007, we completed the acquisition contemplated in the Asset Purchase Agreement dated as of August 25, 2006 among Jose Guillermo Romo de la Pena, Luis Pedro Pablo Romo de la Pena, Grupo Industrial Herradura, S.A. de C.V. ("Casa Herradura"), certain of their respective affiliates, Brown-Forman and Brown-Forman Tequila Mexico, S. de R.L. de C.V., a subsidiary of Brown-Forman, as amended (the "Purchase Agreement"). Pursuant to the Purchase Agreement, we acquired substantially all of the assets of Casa Herradura and its affiliates relating to its tequila business, including the Herradura and el Jimador tequilas, the New-Mix tequila-based ready to drink brand, the trade names and

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

trademarks associated with such brands and other acquired brands, as well as related production facilities and sales and distribution organization in Mexico.

13

We believe this acquisition provides us with several strategic opportunities, including the ownership of two strong, established brands, Herradura and el Jimador, that compete at the super-premium and premium levels, respectively, in the world's largest tequila markets - the U.S. and Mexico. In addition, we believe the growth potential for these brands is very attractive based on the fact that tequila is the fastest growing spirits category in both markets. We expect these brands will help advance our entire business within the Hispanic population, which is the fastest growing demographic segment in the United States, and increase our participation in the popular cocktail culture of the United States, where the tequila-based margarita is the most frequently called-for mixed drink. We also believe the infrastructure in Mexico will give us a strong business platform to advance our entire portfolio in an important international market where we have had very little presence historically. We expect to leverage our current distribution network outside of Mexico, allowing us to grow sales of these super-premium and premium brands in the U.S. and to expand the brands' presence in the rest of the world where the opportunities for growth appear numerous given the virtual non-existence of tequila. Finally, by further expanding and diversifying our portfolio, we believe that these brands will provide us with additional clout with our distributors and that the brands' performance will benefit significantly from our strong brand building skills. These factors contributed to a purchase price that resulted in the recognition of the goodwill shown below.

The cost of the acquisition was \$794.9 million, consisting of the purchase price of \$778.1 million and transaction costs of \$16.8 million. The purchase price is subject to customary post-closing working capital adjustments. The cost of the acquisition has been preliminarily allocated based on management's estimates and independent appraisals as follows:

(Dollars in millions)

Accounts receivable:	
Trade	\$ 51.8
Other	46.9
Inventories	140.8
Property, plant, and equipment	63.0
Deferred income taxes	4.3
Goodwill	344.2
Other intangible assets	216.6
	-----
Total assets	867.6
	-----
Accounts payable and accrued expenses	71.2
Long-term debt	0.2
Other noncurrent liabilities	1.3
	-----
Total liabilities	72.7
	-----
Net assets acquired	\$794.9
	=====

14

A preliminary valuation of the acquired intangible assets was performed by a

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

third party valuation specialist to assist us in determining the fair value of each identifiable intangible asset. Standard valuation procedures were used in determining the fair value of the acquired intangible assets. The following table summarizes the identified intangible asset categories and their weighted average amortization period, where applicable:

	Weighted Average Amortization Period	Fair Value
Finite-lived intangible assets:		
Customer relationships	37.0 years	\$5.3
Indefinite-lived intangible assets:		
Trademarks and brand names		\$211.3
Goodwill		344.2

The initial allocation of the cost of the acquisition was based on preliminary estimates and will be revised as asset valuations are finalized and further information is obtained on the fair value of liabilities. The entire preliminary goodwill amount of \$344.2 million is expected to be deductible for tax purposes.

We financed the acquisition with approximately \$115 million of cash and approximately \$680 of commercial paper, some of which we expect to replace with long-term debt by the end of the fiscal year. In connection with the financing, we obtained an \$800 million bridge facility that backs up our commercial paper and matures in December 2007. We also expect to replace our existing \$400 million revolving credit facility with a larger credit facility by the end of the fiscal year.

The operating results of Casa Herradura have been consolidated with our financial statements since the acquisition date. Consolidated pro forma operating results for the three-month and nine-month periods ended January 31, 2006 and 2007 would not have been materially different from the actual amounts reported for those periods.

### 12. Acquisition of Distribution Rights

Prior to our acquisition of Casa Herradura, it had granted to a third party the rights to distribute the Herradura brand in the United States through December 31, 2011. Upon completing the acquisition of Casa Herradura, we acquired those distribution rights from that third party at a cost of \$25.0 million. That amount, which is included in other intangible assets in the accompanying consolidated balance sheet as of January 31, 2007, will be amortized on a straight-line basis over the period ending December 31, 2011.

15

### 13. Other Income

During July 2005, we entered into an agreement with LVMH Moet Hennessey Louis Vuitton for the early termination of our long-term importing and marketing agreements for Glenmorangie products in the United States, Canada, and certain countries in Europe and Asia. We received approximately \$13.5 million for the early termination, which is included in "other income" for the nine months ended January 31, 2006, in the accompanying consolidated statements of operations.

During January 2006, we received proceeds of \$24.8 million as compensation for Pernod Ricard assuming the distribution of its brands from Swift+Moore, an Australian distribution company co-owned by Pernod Ricard (following its

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

purchase of Allied-Domecq) and Brown-Forman. This amount is recorded in "other income" for the periods ended January 31, 2006. Pernod Ricard surrendered its ownership interest in Swift+Moore to Brown-Forman effective February 1, 2006, resulting in Brown-Forman becoming 100% owner of Swift+Moore as of that date. Swift+Moore will continue to distribute our brands in Australia.

During January 2006, we sold winery land and buildings in California for \$7.0 million, resulting in a gain of \$4.6 million that is included in "other income" for the periods ended January 31, 2006.

During September 2006, we entered into an agreement with Gruppo Italiano Vini (GIV) for the production of Bolla Italian wines. Under the agreement, we also sold our main Bolla wine production facility in Pedemonte, Italy to GIV, which now produces Bolla Italian Wines for us. We recognized a gain on the sale of \$11.1 million, which is included in "other income" for the nine months ended January 31, 2007, in the accompanying consolidated statements of operations. The agreement also named GIV as Bolla's distributor in the Italian domestic market. We maintained worldwide ownership of the Bolla trademark and continue to sell Bolla Wines in the brand's other markets.

### 14. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize in our financial statements the benefit of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact that FIN 48 will have on our financial statements.

16

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of FAS 157 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 157 will have on our financial statements.

In September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158). FAS 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the balance sheet and recognize as a component of other comprehensive income, net of tax, the plan-related gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. We will prospectively adopt FAS 158 on April 30, 2007. Based on the funded status of our plans as of the date of our most recent actuarial valuation, we expect the adoption of FAS 158 to reduce reported stockholders' equity by approximately \$100 million. However, the actual impact of adopting FAS 158 is highly dependent on a number of factors, including the discount rates in effect at the next measurement date, and the actual rate of return on pension assets during fiscal 2007. These factors could significantly increase or decrease the expected impact of adopting FAS 158.

In September 2006, the Securities and Exchange Commission issued Staff

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which addresses how to quantify the effect of financial statement errors. The provisions of SAB 108 become effective as of the end of our 2007 fiscal year. We do not expect the adoption of SAB 108 to have a significant impact on our financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

17

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis along with our 2006 Annual Report. Note that the results of operations for the nine months ended January 31, 2007, do not necessarily indicate what our operating results for the full fiscal year will be. In this Item, "we," "us," and "our" refer to Brown-Forman Corporation.

#### Important Note on Forward-Looking Statements:

This report contains statements, estimates, or projections that constitute "forward-looking statements" as defined under U.S. federal securities laws. Generally, the words "expect," "believe," "intend," "estimate," "will," "anticipate," and "project," and similar expressions identify a forward-looking statement, which speaks only as of the date the statement is made. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. We believe that the expectations and assumptions with respect to our forward-looking statements are reasonable. But by their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that in some cases are out of our control. These factors could cause our actual results to differ materially from Brown-Forman's historical experience or our present expectations or projections. Here is a non-exclusive list of such risks and uncertainties:

- changes in general economic conditions, particularly in the United States where we earn a significant portion of our profits;
- lower consumer confidence or purchasing in the wake of catastrophic events;
- tax increases, whether at the federal or state level or in major international markets and/or tariff barriers or other restrictions affecting beverage alcohol;
- limitations and restrictions on distribution of products and alcohol marketing, including advertising and promotion, as a result of stricter governmental policies adopted either in the United States or globally;
- adverse developments in the class action lawsuits filed against Brown-Forman and other spirits, beer and wine manufacturers alleging that our industry conspired to promote the consumption of alcohol by those under the legal drinking age;
- a strengthening U.S. dollar against foreign currencies, especially the British Pound, Euro, Australian Dollar, and the Mexican Peso;
- reduced bar, restaurant, hotel and travel business, including travel retail,



## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

- in the wake of terrorist attacks;
- lower consumer confidence or purchasing associated with high energy prices;
- longer-term, a change in consumer preferences, social trends or cultural trends that results in the reduced consumption of our premium spirits brands;
- changes in distribution arrangements in major markets that limit our ability to market or sell our products;
- increases in the price of energy or raw materials, including grapes, grain, wood, glass, and plastic;
- excess wine inventories or a world-wide oversupply of grapes;
- termination of our rights to distribute and market agency brands included in our portfolio;
- counterfeit production of our products could adversely affect our intellectual property rights, brand equity and operating results;
- adverse developments as a result of state investigations of beverage alcohol industry trade practices of suppliers, distributors and retailers.

18

### Results of Operations:

Third Quarter Fiscal 2007 Compared to Third Quarter Fiscal 2006

A summary of our operating performance (expressed in millions, except percentage and per share amounts) is presented below. Continuing Operations consist of our beverage business. Discontinued Operations consist of Lenox, Brooks & Bentley, and Hartmann, which previously comprised our consumer durables business.

	Three Months Ended		
	January 31,		
CONTINUING OPERATIONS	2006	2007	Change
	-----	-----	-----
Net sales	\$627.6	\$754.8	20%
Gross profit	330.8	387.3	17%
Advertising expenses	84.7	94.2	11%
Selling, general, and administrative expenses	113.3	129.2	14%
Other (income), net	(32.5)	(4.9)	
Operating income	165.3	168.8	2%
Interest expense (income), net	(0.3)	2.5	
Income before income taxes	165.6	166.3	0%
Income taxes	45.5	54.7	
Net income	120.1	111.6	(7%)
Gross margin	52.7%	51.3%	
Effective tax rate	27.5%	32.9%	
Earnings per share:			
Basic	0.984	0.907	(8%)
Diluted	0.972	0.898	(8%)

Diluted earnings from continuing operations for the quarter ended January 31, 2007 of \$0.90 per share dropped 8% from the \$0.97 earned in the same prior year period. The decline in earnings was driven by the absence of a net \$0.14 per share benefit related to changes in our Australian distribution joint venture and a \$0.04 per share gain on the sale of winery property, both recorded in last year's third quarter. Excluding these two items, earnings improved for the quarter, reflecting solid profit growth for Jack Daniel's Tennessee Whiskey, Southern Comfort and Finlandia and strong performance for the Jack Daniel's & Cola ready-to-drink product sold primarily in Australia. The effect of including the operating results of Casa Herradura for the 13 days of the quarter for which

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

we owned the business was not significant to the overall sales for the quarter.

19

Net sales grew 20% and gross profit increased 17% in the quarter. The weaker U.S. dollar accounted for about 4 points of the revenue and gross profit growth, as sales of our brands outside the United States continued to benefit from favorable foreign exchange trends. Net sales also benefited approximately 6 points due to a change in our distribution system in Australia that not only temporarily interrupted the recognition of sales last year, but also resulted in our becoming responsible for the collection and remittance of excise taxes in that market.

Advertising investments behind our brands increased \$9.5 million, or 11% in the quarter. The weaker U.S. dollar contributed about 3 points to this growth while the remaining increase reflected higher investments behind Jack Daniel's, Finlandia and Chambord. SG&A expenses increased \$15.9 million, or 14% in the quarter. Approximately \$4.9 million of this growth over the prior-year period was related to the previously mentioned changes in our distribution arrangement in Australia and approximately \$3 million is due to transition expenses associated with the Casa Herradura transaction.

Operating income increased \$3.5 million in the quarter, up a modest 2% over the same prior year period. The absence of a net \$13.1 million benefit related to changes in our Australian distribution joint venture and a \$4.6 million gain, due in part to the previously mentioned net gain on the sale on the sale of winery property, both recorded in last year's third quarter, are making operating income comparisons difficult for the third quarter of fiscal 2007. Adjusting for these items, operating income grew at a solid rate, reflecting gross profit gains that more than offset increases in both SG&A and brand investments.

Jack Daniel's global depletions continued to grow at a mid-single digit rate in the quarter with volumes improving in the low-single digits in the U.S. and at a double-digit rate internationally. Notable double-digit gains were recorded in the brand's key international markets of the U.K., Germany, South Africa, France, Australia, Japan, and Poland. Global volumes for Southern Comfort grew at a mid-single digit rate in the quarter, led by strong growth in the U.K. and South Africa. Finlandia volumes grew at a double-digit rate, fueled by continued strong growth in Eastern Europe.

20

### DISCONTINUED OPERATIONS

As discussed in Note 4 to the accompanying financial statements, we sold Lenox during fiscal 2006, signed a contract to sell Brooks & Bentley in March 2007, and expect to dispose of Hartmann by the end of fiscal 2007. As a result, we have reported them as discontinued operations in the accompanying financial statements.

	Three Months Ended January 31,	
	2006	2007
	-----	-----
Net income (loss)	\$ 0.4	\$(6.5)
Earnings (loss) per share:		
Basic	0.003	(0.052)
Diluted	0.003	(0.052)

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

For the three months ended January 31, 2007, we reported a net loss from discontinued operations of \$6.5 million versus net income of \$0.4 million for the same prior year period. This year's loss includes a pre-tax impairment charge of \$9.4 million. The majority of this impairment relates to the decision made in the third quarter by our Board of Directors to sell Hartmann and to focus our efforts entirely on our beverage business. The \$6.9 million pre-tax impairment charge associated with Hartmann consisted of a goodwill impairment of \$3.6 million and an impairment charge of \$3.3 million that represented the excess of the carrying value of the net assets to be sold over the expected sales proceeds, net of estimated costs to sell.

Before we decided to sell Hartmann, no impairment charge was recorded because we believed its operations would generate sufficient future cash flows to enable us to fully recover its carrying amount. The decision to sell Hartmann reflects the Board's opinion that the sum of the price to be obtained from the sale and the strategic value of focusing entirely on our beverage business is greater than the value of continuing to operate Hartmann.

There was also \$2.5 million pre-tax impairment charge recorded during the quarter for Brooks & Bentley. This impairment charge reflected a revision to its estimated fair value and costs to sell, based on the negotiations that resulted in our reaching an agreement to sell Brooks & Bentley in March 2007.

21

### Results of Operations:

Nine Months Fiscal 2007 Compared to Nine Months Fiscal 2006

A summary of our operating performance (expressed in millions, except percentage and per share amounts) is presented below. Continuing Operations consist of our beverage business. Discontinued Operations consist of Lenox, Brooks & Bentley, and Hartmann, which previously comprised our consumer durables business.

CONTINUING OPERATIONS	Nine Months Ended January 31,		Change
	2006	2007	
	-----	-----	-----
Net sales	\$1,827.1	\$2,115.4	16%
Gross profit	985.4	1,118.9	14%
Advertising expenses	243.2	267.2	10%
Selling, general, and administrative expenses	328.5	378.1	15%
Other (income), net	(46.7)	(20.1)	
Operating income	460.4	493.7	7%
Interest expense, net	3.7	5.4	
Income before income taxes	456.7	488.3	7%
Income taxes	136.8	157.4	
Net income	319.9	330.9	3%
 Gross margin	 53.9%	 52.9%	
Effective tax rate	30.0%	32.2%	
Earnings per share:			
Basic	\$2.621	\$2.694	3%
Diluted	2.594	2.664	3%

Net sales and gross profit increased 16% and 14%, respectively, reflecting solid gains for most brands, but particularly Jack Daniel's, Southern Comfort, Jack

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Daniel's & Cola, and Finlandia. Also contributing to these increases were positive benefits from foreign exchange, which accounted for about 3 points of growth for both net sales and gross profit. Changes in our go-to-market strategies in several markets, most notably Germany and Australia, added approximately 5 points of the net sales growth through January.

Advertising expenses were up \$24.0 million, or 10%, for the first nine months of the fiscal year, reflecting incremental investments behind most brands in our portfolio but most notably Jack Daniel's, Finlandia, Korbel Champagne, and several developing super-premium brands, including Chambord.

SG&A expenses were up \$49.6 million, or 15%, on for the first nine months of fiscal 2007 compared to the same prior year period. Changes in our go-to-market strategy in Australia and Germany as well as in the U.S. accounted for approximately 7% of the year-to-year growth in SG&A through January. The remaining increase reflects severance benefits for employees of the Pedemonte facility in Italy, transition expenses associated with the integration of the Casa Herradura business, higher pension and other postretirement costs, and general inflation.

22

Operating income grew \$33.3 million, or 7%, year-over-year. Volume gains and margin improvements (when excluding the effect of excise taxes) for the majority of our brands, but particularly Jack Daniel's, Southern Comfort, and Jack Daniel's & Cola, partially offset by increased advertising and promotional investments and higher levels of SG&A spending, fueled the gain in operating income.

The increase in the effective tax rate from 30.0% to 32.2% largely reflects the tax benefit achieved last year by offsetting various capital gain items (the early termination of Glenmorangie marketing and distribution rights, the sale of winery assets, and consideration received from changes in our Australian distribution operation) against the capital loss resulting from the sale of Lenox.

For the first nine months of the fiscal year, diluted earnings per share were \$2.66, up 3% from the \$2.59 earned in the same period last year. Year-to-date results benefited from solid growth for Jack Daniel's, Southern Comfort, and improved volume and profits from the Jack Daniel's & Cola ready-to-drink product that is sold primarily in Australia. Year-over-year comparisons were affected by the following:

Recorded last year:

- profits associated with the early termination of Glenmorangie marketing and distribution rights of approximately \$0.11 per share;
- a net benefit received from changes in our Australian distribution operation of approximately \$0.14 per share; and
- a net gain on the sale of winery assets of approximately \$0.04 per share.

Recorded this year:

- profits associated with the sale of an Italian winery of approximately \$0.08 per share; and
- an \$0.11 per share benefit of favorable foreign currency fluctuations.

23

DISCONTINUED OPERATIONS

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

As discussed in Note 4 to the accompanying financial statements, we sold Lenox during fiscal 2006, signed a contract to sell Brooks & Bentley in March 2007, and expect to dispose of Hartmann by the end of fiscal 2007. As a result, we have reported them as discontinued operations in the accompanying financial statements.

	Nine Months Ended	
	January 31,	
	2006	2007
	-----	-----
Net loss	\$(77.8)	\$(8.2)
Loss per share:		
Basic	(0.637)	(0.066)
Diluted	(0.631)	(0.066)

For the nine months ended January 31, 2007, we reported a net loss from discontinued operations of \$8.2 million versus a net loss of \$77.8 million for the same prior year period. Last year's loss included a non-cash impairment charge and transaction costs totaling \$69.8 million in addition to a loss from the operations of Lenox incurred during the period prior to the sale. As previously discussed, this year's loss includes a pre-tax \$9.4 million impairment charge related to Brooks & Bentley and Hartmann.

### OUTLOOK FOR CONTINUING OPERATIONS

Excluding the recent acquisition of Casa Herradura, and on a comparable basis with prior guidance for this year, we have narrowed the range of our full-year earnings outlook to \$3.20 to \$3.30 per share. This compares favorably to the \$3.14 to \$3.30 per share guidance provided at the end of the second quarter. This updated outlook continues to include an \$0.08 per share gain from the sale of the Italian winery and represents forecasted growth of 10% to 14% over adjusted prior-year earnings of \$2.90 per share. The revised outlook anticipates, in the fourth quarter of the fiscal year, an expected higher tax rate versus the prior year period, further increases in spending behind our premium global brands, higher grain costs, expected further reductions in global distributor inventory levels, and additional benefits from a weaker U.S. dollar.

As previously communicated, we project the acquisition of Casa Herradura, which closed on January 18, 2007, to be dilutive to earnings for this fiscal year in the range of \$0.14 to \$0.18 per share, which includes \$0.02 reported in the third quarter.

### LIQUIDITY AND FINANCIAL CONDITION

Cash and cash equivalents decreased by \$220.9 million during the nine months ended January 31, 2007, compared to an increase of \$71.3 million during the same period last year. Cash provided by operations grew from \$243.4 million to \$277.6 million, reflecting a \$3.7 million increase in cash from continuing operations, largely attributable to higher earnings, and a \$30.5 million increase in cash provided by discontinued operations. Cash used for investing activities increased by \$1,029.9 million, largely reflecting the acquisitions of Chambord and Casa Herradura (discussed below) for a total of \$1,045.5 million during fiscal 2007. Cash used for financing activities increased by \$702.0 million, primarily reflecting the issuance of commercial paper to finance the acquisition of Casa Herradura.

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Effective May 31, 2006, we completed the acquisition of Chambord Liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$250.6 million, including transaction costs. The acquisition consists primarily of the Chambord brand name and goodwill, to which we have preliminarily allocated \$116.5 million and \$126.9 million of the purchase price, respectively.

On January 18, 2007, we completed the acquisition of substantially all of the assets of Casa Herradura and its affiliates relating to its tequila business, including the Herradura and el Jimador tequilas, the New-Mix tequila-based ready to drink brand, the trade names and trademarks associated with such brands and other acquired brands, as well as related production facilities and sales and distribution organization in Mexico. The cost of the acquisition, including transaction costs, was \$794.9 million, which has been preliminarily allocated to the acquired assets and liabilities (see Note 11 to the accompanying condensed consolidated financial statements). We financed the acquisition with approximately \$115 million of cash and approximately \$680 of commercial paper, some of which we expect to replace with long-term debt by the end of the fiscal year. In connection with the financing, we obtained an \$800 million bridge facility that backs up our commercial paper and matures in December 2007. We also expect to replace our existing \$400 million revolving credit facility with a larger credit facility by the end of the fiscal year.

On November 16, 2006, the Board of Directors, after reviewing various strategic alternatives, decided to pursue a sale of our wholly-owned subsidiary, Hartmann, Inc. This process has been initiated. Prior period amounts have been recast to reflect Hartmann, Inc. as a component of discontinued operations and net assets held for sale.

### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize in our financial statements the benefit of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact that FIN 48 will have on our financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of FAS 157 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 157 will have on our financial statements.

In September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158). FAS 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the balance sheet and recognize as a component of other comprehensive income, net of tax, the plan-related gains or losses and prior service costs or credits that arise during the period but are not recognized as

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

components of net periodic benefit cost. We will prospectively adopt FAS 158 on April 30, 2007. Based on the funded status of our plans as of the date of our most recent actuarial valuation, we expect the adoption of FAS 158 to reduce reported stockholders' equity by approximately \$100 million. However, the actual impact of adopting FAS 158 is highly dependent on a number of factors, including the discount rates in effect at the next measurement date, and the actual rate of return on pension assets during fiscal 2007. These factors could significantly increase or decrease the expected impact of adopting FAS 158.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which addresses how to quantify the effect of financial statement errors. The provisions of SAB 108 become effective as of the end of our 2007 fiscal year. We do not expect the adoption of SAB 108 to have a significant impact on our financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We hold debt obligations, foreign currency forward and option contracts, and commodity futures contracts that are exposed to risk from changes in interest rates, foreign currency exchange rates, and commodity prices, respectively. Established procedures and internal processes govern the management of these market risks. As of January 31, 2007, we do not consider the exposure to these market risks to be material.

26

### Item 4. Controls and Procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Brown-Forman (its principal executive and principal financial officers) have evaluated the effectiveness of the company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO concluded that the company's disclosure controls and procedures: are effective to ensure that information required to be disclosed by the company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and include controls and procedures designed to ensure that information required to be disclosed by the company in such reports is accumulated and communicated to the company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended January 31, 2007, Brown-Forman acquired Casa Herradura, which was previously a privately held company based in Mexico. See Note 11 to the condensed consolidated financial statements included in Item 1 for a discussion of the acquisition and related financial data. Brown-Forman is in the process of integrating the Casa Herradura operations and will be incorporating these operations as part of our

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

internal controls. However, for purposes of this evaluation the disclosure controls and procedures of the Casa Herradura operations were excluded.

There has been no change in the company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting, other than with respect to the Casa Herradura operations, which have been excluded from management's evaluation as noted above.

27

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

Brown-Forman Corporation and many other manufacturers of spirits, wine, and beer are defendants in a series of essentially similar class action lawsuits seeking damages and injunctive relief for alleged marketing of beverage alcohol to underage consumers. Nine lawsuits have been filed to date, the first three against eight defendants, including Brown-Forman: "Hakki v. Adolph Coors Company, et.al.," District of Columbia Superior Court No. CD 03-9183 (November 2003); "Kreft v. Zima Beverage Co., et.al.," District Court, Jefferson County, Colorado, No. 04cv1827 (December 2003); and "Wilson v. Zima Company, et.al.," U.S. District Court for the Western District of North Carolina, Charlotte Division, No. 3:04cv141 (January 2004). Two virtually identical suits with allegations similar to those in the first three lawsuits were filed in Cleveland, Ohio, in April and June, 2004, respectively, against the original eight defendants as well as an additional nine manufacturers of spirits and beer, and are now consolidated as "Eisenberg v. Anheuser-Busch," U.S. District Court for the District of Northern Ohio, No. 1:04cv1081. Five similar suits were filed in 2005: "Elizabeth H. Sciocchette v. Advanced Brands," Albany County, New York Supreme Court No. 102205 (February 16, 2005); "Roger and Kathy Bertovich v. Advanced Brands," Hancock County, West Virginia, Circuit Court No. 05-C-42M (February 17, 2005); "Jacquelin Tomberlin v. Adolph Coors," Dane County (Madison, Wisconsin) Circuit Court, (February 23, 2005); "Viola Alston v. Advanced Brands," Wayne County, Michigan, Circuit Court No. 05-509294, (March, 30, 2005), and "Craig Konhauzer v. Adolph Coors Company," Broward County Florida Circuit Court, No. 05004875 (March 30, 2005). In addition, Brown-Forman received in February, 2004, a pre-lawsuit notice under the California Consumer Protection Act indicating that the same lawyers intend to file a lawsuit there against many industry defendants, including Brown-Forman, presumably on the same facts and legal theories.

The suits allege that the defendants have engaged in deceptive marketing practices and schemes targeted at underage consumers, negligently marketed their products to the underage, and fraudulently concealed their alleged misconduct.

Plaintiffs seek class action certification on behalf of: (a) a guardian class consisting of all persons who were or are parents of children whose funds were used to purchase beverage alcohol marketed by the defendants which were consumed without their prior knowledge by their children under the age of 21 during the period 1982 to present; and (b) an injunctive class consisting of the parents and guardians of all children currently under the age of 21.

The lawsuits seek: (1) a finding that defendants engaged in a deceptive scheme to market alcoholic beverages to underage persons and an injunction against such alleged practices; (2) disgorgement and refund to the guardian class of all proceeds resulting from sales to the underage since 1982; and (3) judgment to each guardian class member for a trebled award of actual damages, punitive damages, and attorneys fees. The lawsuits, either collectively or individually, if ultimately successful, represent significant financial exposure.



Brown-Forman, in coordination with other defendants, is vigorously defending itself in these cases. Brown-Forman and the other defendants have successfully obtained orders to dismiss six of the pending cases: Kreft (Colorado) in October 2005; Eisenberg (Ohio) in February 2006; Tomberlin (Wisconsin) in March 2006; Hakki (D.C.) in March 2006; Alston (Michigan) in May 2006; and Bertovich (West Virginia) in August 2006. Konhauzer (Florida) and Sciocchette (New York) voluntarily withdrew their respective suits. Each involuntarily dismissal is being appealed by the respective plaintiffs.

Item 1A. Risk Factors

Other than with respect to the revision and additions below, there have been no changes to "Item 1A: Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended April 30, 2006 and filed on June 29, 2006. The revision and additions below should be read together with the risk factors and information disclosed in our Annual Report on Form 10-K.

The risk factor entitled "Demand for our products may be adversely affected by changes in consumer preferences and tastes" is amended and restated in its entirety as follows.

DEMAND FOR OUR PRODUCTS MAY BE ADVERSELY AFFECTED BY CHANGES IN CONSUMER PREFERENCES AND TASTES.

We operate in a highly competitive marketplace. Maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, and changes in dining and beverage consumption patterns. In addition, sales of a brand might diminish because of a scare over product contamination or some other negative publicity regarding the brand. If a product recall becomes necessary, that can affect our business.

The following two risk factors constitute additions to the risk factors disclosed in "Item 1A: Risk Factors" of our Annual Report on Form 10-K.

TERMINATION OF OUR RIGHTS TO DISTRIBUTE AND MARKET AGENCY BRANDS INCLUDED IN OUR PORTFOLIO COULD ADVERSELY AFFECT OUR BUSINESS.

In addition to the brands our company owns, we also market and distribute products on behalf of other brand owners in selected markets, including the U.S. Our rights to sell these agency brands are based on contracts with the various brand owners, which have varying lengths, renewal terms, termination, and other provisions. We earn a margin for these sales and also gain distribution cost efficiencies in some instances. Therefore, the termination of our rights to distribute agency brands included in our portfolio could adversely affect our business.

COUNTERFEIT PRODUCTION OF OUR PRODUCTS COULD ADVERSELY AFFECT OUR INTELLECTUAL PROPERTY RIGHTS, BRAND EQUITY AND OPERATING RESULTS.

The beverage alcohol industry is experiencing problems with product counterfeiting and other forms of trademark infringement, especially within the Asian and Eastern European markets. Given our dependence on brand recognition,

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

we devote substantial resources on a worldwide basis to the protection of our intellectual property rights. In addition, we have taken steps to reduce the ability of others to imitate our products. Although we believe that our intellectual property rights are legally supported in the markets in which we do business, the protection of intellectual property rights varies greatly from country to country. Confusingly similar, lower quality or even dangerous counterfeit product could reach the market and adversely affect our intellectual property rights, brand equity and/or operating results.

### Item 6. Exhibits

- 31.1 CEO Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2 CFO Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32 CEO and CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (not considered to be filed).

30

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BROWN-FORMAN CORPORATION  
(Registrant)

Date: March 9, 2007

By: /s/ Phoebe A. Wood  
Phoebe A. Wood  
Vice Chairman and  
Chief Financial Officer  
(On behalf of the Registrant and  
as Principal Financial Officer)

31

Exhibit 31.1

### CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Paul C. Varga, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Brown-Forman Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2007

By: /s/ Paul C. Varga  
Paul C. Varga  
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

## Edgar Filing: BROWN FORMAN CORP - Form 10-Q

I, Phoebe A. Wood, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Brown-Forman Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Edgar Filing: BROWN FORMAN CORP - Form 10-Q

Date: March 9, 2006

By: /s/ Phoebe A. Wood  
Phoebe A. Wood  
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Brown-Forman Corporation ("the Company") on Form 10-Q for the period ended January 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in the capacity as an officer of the Company, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2007

By: /s/ Paul C. Varga  
Paul C. Varga  
President and Chief Executive Officer

By: /s/ Phoebe A. Wood  
Phoebe A. Wood  
Vice Chairman and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.