

BROWN FORMAN CORP
Form 10-Q
March 09, 2011

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, 2011

OR

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

For the transition period from _____ to _____

Commission File 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 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 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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: February 28, 2011

Class A Common Stock (\$.15 par value, voting)	56,571,774
Class B Common Stock (\$.15 par value, nonvoting)	88,613,344

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		Nine Months Ended	
	January 31,		January 31,	
	2010	2011	2010	2011
Net sales	\$861.7	\$962.4	\$2,492.5	\$2,613.0
Excise taxes	224.3	254.4	585.5	637.2
Cost of sales	226.5	244.5	673.0	674.7
Gross profit	410.9	463.5	1,234.0	1,301.1
Advertising expenses	92.0	96.8	260.2	266.7
Selling, general, and administrative expenses	131.5	142.3	373.7	407.2
Amortization expense	1.3	1.3	3.8	3.8
Other expense (income), net	12.2	(2.4)	4.8	(9.7)
Operating income	173.9	225.5	591.5	633.1
Interest income	0.5	0.6	1.9	1.7
Interest expense	7.6	7.5	23.6	20.9
Income before income taxes	166.8	218.6	569.8	613.9
Income taxes	58.9	77.9	193.3	207.8
Net income	\$107.9	\$140.7	\$376.5	\$406.1
Earnings per share:				
Basic	\$0.73	\$0.97	\$2.54	\$2.78
Diluted	\$0.73	\$0.96	\$2.53	\$2.77
Cash dividends per common share:				
Declared	\$0.600	\$1.640	\$1.175	\$2.240
Paid	\$0.300	\$1.320	\$0.875	\$1.920

See notes to the condensed consolidated financial statements.

BROWN-FORMAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in millions)

	April 30, 2010	January 31, 2011
Assets		
Cash and cash equivalents	\$231.6	\$278.6
Accounts receivable, net	418.0	530.3
Inventories:		
Barreled whiskey	298.9	311.4
Finished goods	142.1	153.2
Work in process	156.5	162.2
Raw materials and supplies	53.1	50.2
Total inventories	650.6	677.0
Current deferred tax assets	42.2	33.6
Other current assets	184.1	167.2
Total current assets	1,526.5	1,686.7
Property, plant and equipment, net	467.8	450.4
Goodwill	666.5	667.8
Other intangible assets	669.6	667.3
Deferred tax assets	11.0	11.5
Other assets	41.6	39.2
Total assets	\$3,383.0	\$3,522.9
Liabilities		
Accounts payable and accrued expenses	\$342.4	\$371.9
Dividends payable	--	46.4
Accrued income taxes	3.7	8.2
Current deferred tax liabilities	9.1	8.0
Short-term borrowings	187.5	0.1
Current portion of long-term debt	2.9	3.0
Total current liabilities	545.6	437.6
Long-term debt	507.9	756.7
Deferred tax liabilities	82.2	153.2
Accrued pension and other postretirement benefits	283.4	235.3
Other liabilities	68.9	66.4
Total liabilities	1,488.0	1,649.2
Commitments and contingencies		
Stockholders' Equity		
Common stock:		
Class A, voting		

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(57,000,000 shares authorized; 56,964,000 shares issued)	8.5	8.5
Class B, nonvoting		
(100,000,000 shares authorized; 99,363,000 shares issued)	14.9	14.9
Additional paid-in capital	59.4	57.1
Retained earnings	2,464.4	2,544.6
Accumulated other comprehensive loss, net of tax	(176.3)	(167.6)
Treasury stock, at cost (9,364,000 and 11,142,000 shares at April 30 and January 31, respectively)	(475.9)	(583.8)
Total stockholders' equity	1,895.0	1,873.7
Total liabilities and stockholders' equity	\$3,383.0	\$3,522.9

See notes to the condensed consolidated financial statements.

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

	Nine Months Ended January 31,	
	2010	2011
Cash flows from operating activities:		
Net income	\$376.5	\$406.1
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	43.8	42.9
Trademark impairment charge	11.6	--
Gain on sale of property, plant, and equipment	--	(1.5)
Stock-based compensation expense	5.8	6.0
Deferred income taxes	32.5	65.5
Changes in assets and liabilities	(45.7)	(119.5)
Cash provided by operating activities	424.5	399.5
Cash flows from investing activities:		
Proceeds from sale of property, plant, and equipment	--	12.1
Additions to property, plant, and equipment	(17.2)	(26.5)
Computer software expenditures	(2.2)	(2.4)
Cash used for investing activities	(19.4)	(16.8)
Cash flows from financing activities:		
Net decrease in short-term borrowings	(231.3)	(187.3)
Repayment of long-term debt	(1.7)	(2.1)
Proceeds from long-term debt	--	248.4
Debt issuance costs	--	(1.8)
Net payments related to exercise of stock options	(3.8)	(6.4)
Excess tax benefits from stock options	3.0	8.6
Acquisition of treasury stock	(157.5)	(118.3)
Dividends paid	(129.8)	(279.5)
Cash used for financing activities	(521.1)	(338.4)
Effect of exchange rate changes on cash and cash equivalents	17.6	2.7
Net (decrease) increase in cash and cash equivalents	(98.4)	47.0
Cash and cash equivalents, beginning of period	340.1	231.6
Cash and cash equivalents, end of period	\$241.7	\$278.6

See notes to the condensed consolidated financial statements.

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 the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial information. In accordance with those rules and regulations, we condensed or omitted certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). We suggest that you read these condensed financial statements together with the financial statements and footnotes included in our annual report on Form 10-K for the fiscal year ended April 30, 2010 (the “2010 Annual Report”).

In our opinion, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial results for the periods covered by this report.

We prepared the accompanying financial statements on a basis that is substantially consistent with the accounting principles applied in our 2010 Annual Report, although during the first quarter of fiscal 2011 we adopted new accounting guidance for disclosure of fair value measurements (Note 10). Our adoption of the new accounting guidance had no material impact on our financial statements.

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 \$218.6 million higher than reported as of April 30, 2010, and \$227.7 million higher than reported as of January 31, 2011. 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 operating income, statutory tax rates, and income 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 33.8% for the nine months ended January 31, 2011, is based on an expected tax rate from operations of 33.0% on ordinary income for the full fiscal year, the recognition of additional tax expense related to discrete items arising during the period, and interest on previously provided tax contingencies. Our expected tax rate from operations includes current fiscal year additions for existing tax contingency items.

We believe it is reasonably possible that there may be a net decrease in our gross unrecognized tax benefits of \$2.9 million in the next twelve months as a result of tax positions taken in the current period, expirations of statutes of limitations and settlements with taxing authorities.

We file income tax returns in the United States, including several state and local jurisdictions, as well as in several other countries in which we conduct business. The major jurisdictions and their earliest fiscal years that are currently open for tax examinations are 1998 in the United States, 2007 in Australia and Italy, 2006 in Ireland, 2005 in Poland and Finland, 2003 in the U.K. and 2002 in Mexico. Audits of our fiscal 2006 and 2007 U.S. federal tax returns were completed during fiscal 2010. Although one matter from these audits remains open, we believe that we have adequately provided for it, and that our remaining exposure is not material. In addition, audits of our fiscal 2008 and 2009 U.S. federal tax returns have commenced during fiscal 2011.

4. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of unrestricted common shares outstanding during the period. Diluted earnings per share further includes the dilutive effect of stock options, stock-settled appreciation rights (“SSARs”), restricted stock units (“RSUs”), and deferred stock units (“DSUs”). That dilutive effect is calculated using the “treasury stock method” (as defined by GAAP).

We have granted restricted shares of common stock to certain employees as part of their compensation. These restricted shares, which have varying vesting periods, contain nonforfeitable rights to dividends declared on common stock. As a result, the unvested restricted shares are considered participating securities in the calculation of earnings per share.

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,	
	2010	2011	2010	2011
Basic and diluted net income	\$107.9	\$140.7	\$376.5	\$406.1
Income allocated to participating securities (restricted shares)	(0.1)	(0.1)	(0.5)	(0.4)
Net income available to common stockholders	\$107.8	\$140.6	\$376.0	\$405.7
Share data (in thousands):				
Basic average common shares outstanding	146,758	145,061	148,162	145,787
Dilutive effect of stock options, SSARs, RSUs, and DSUs	784	979	718	883
Diluted average common shares outstanding	147,542	146,040	148,880	146,670
Basic earnings per share	\$0.73	\$0.97	\$2.54	\$2.78
Diluted earnings per share	\$0.73	\$0.96	\$2.53	\$2.77

Under the treasury stock method, approximately 400,000 SSARs granted in July 2010 were not dilutive in the three-month or nine-month periods ended January 31, 2011. Accordingly none of these SSARs are included in the calculation of earnings per share for any of the periods presented in this report. However, they could have a dilutive effect in future periods.

5. Dividends Per Share

We declared total dividends of \$2.24 per share on Class A and Class B common stock during the nine months ended January 31, 2011. That amount consists of a special dividend of \$1.00 per share and regular dividends of \$1.24 per share, including \$0.32 per share that will be paid on April 1, 2011 to stockholders of record as of March 9, 2011.

6. Debt

Our long-term debt consisted of the following:

(Dollars in millions)	April 30, 2010	January 31, 2011
5.2% notes, due April 1, 2012	\$250.2	\$252.2
5.0% notes, due February 1, 2014	249.3	249.7
2.5% notes, due January 15, 2016	--	248.4
Other	11.3	9.4
	510.8	759.7
Less current portion	2.9	3.0
	\$507.9	\$756.7

7. Contingencies

We operate in a litigious environment, and we are 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 then adjust the accrual as appropriate to reflect changes in facts and circumstances. We do not believe these loss contingencies, individually or in the aggregate, would have a material adverse effect on our financial position, results of operations, or liquidity. No material accrued loss contingencies are recorded as of January 31, 2011.

8. Pension and Other Postretirement Benefits

The following table shows the components of the pension and other postretirement benefit expense recognized for our U.S. benefit plans during the periods covered by this report. Information about similar international plans is not presented due to immateriality.